

For Release at 07:35 on May 19, 2010

2010 JoongAng Daily
Korean Economic Forum

Korea's Financial Policy: Current Issues & Tasks

Wednesday, May 19, 2010
Emerald Hall
Lotte Hotel

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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 . Greetings

Good morning, ladies and gentlemen!

I would like to begin with my thanks to Mr. Song Philho, CEO of JoongAng Ilbo, Mr. Lho Cholsoo, publisher of JoongAng Daily, and Mr. Chung Ki-young, president of Samsung Economic Research Institute, for inviting me to speak at today's forum.

I also wish to acknowledge and thank honorable ambassadors, business leaders, and members of the foreign press who are with us today.

The global financial crisis, unprecedented in both scale and scope, now appears to have run its course.

Troubling new developments in the euro-zone economies, however, remind us that there are still many post-crisis uncertainties we must contend with.

So, once again, we must wonder where the euro-zone crisis is headed, and what impact, if any, it may have on Korea's financial markets and the economy.

And it is my hope that today's forum will shed new light on some of the questions that are on everyone's mind.

This morning, I would like to use my time to outline major financial policy issues we confront and tasks that lie ahead.

II. Korea's Financial Policy: Current Issues & Tasks

There is no question that the global financial crisis forced us to reflect on our past and take stock of what went wrong.

The crisis was, in many ways, a heavy blow to our conventional wisdom: namely, a blind faith in market efficiency, innovation and risk-taking.

Now, with the benefit of hindsight, the international community is working to introduce wide-ranging financial regulatory reform measures.

I believe we must prepare wisely for what lies ahead and maintain our vigilance on changes that are unfolding in the global financial environment.

For our part, we are going to formulate financial policies within the context of the new global financial order with a focus on enhancing Korea's financial capabilities.

Addressing Destabilizing Factors

First and foremost, we will continue to respond swiftly and preemptively to destabilizing market developments to put out the fire before it spreads.

We are witnessing how distress in the euro-zone economies is rattling the global financial markets.

Fortunately, bold actions such as the agreement on the European Stability Mechanism that EU leaders announced on May 9 have had a positive effect on the market.

Nevertheless, we cannot afford to be complacent about the potential for another crisis contagion and we must watch carefully how this situation develops.

I can tell you that we are taking the necessary precautions by tightening our market monitoring and continually reviewing and updating our contingency plans.

Enhancing Korea's Role in the International Community

Second, we are working to enhance Korea's role and stature on the global stage.

The financial crisis has triggered many important changes to the governance of the international financial order.

The new G20 era heralds a major shift from a framework dominated by advanced nations to one where emerging market countries also have a voice.

As you know, the emerging economies could not escape the impact of the financial crisis, but have been recovering at a robust pace.

They are now taking on a greater role in global institutions such as the IMF and the World Bank as well.

Korea also recognizes its role in this new era and will certainly do its part, especially as the host of the upcoming G20 Summit in Seoul.

At the November Summit, Korea will be demonstrating its global leadership by facilitating concrete outcomes from the ongoing global regulatory reform efforts.

We will also be endeavoring to highlight systemic risks in emerging countries and produce firm and reassuring outcomes from world leaders.

One risk is sudden reversal of foreign capital in emerging economies whose national currency is not part of the world's reserve currencies.

Past experience tells us that this leaves emerging economies vulnerable to currency instability and affects not only the financial markets, but also the real economy.

Therefore, Korea will be pushing for a consensus from the G20 and the FSB on creating new mechanisms that can effectively address this critical issue.

One example of this is constructing a financial safety net to stabilize foreign exchange markets in emerging economies.

The international community should step up efforts to respond to problems that cannot be resolved by particular regions or countries alone.

Constructing a Robust Financial System

Third, we are working to reinforce our financial system by addressing its vulnerabilities that the crisis revealed.

This means, in particular, tackling herd behavior in the financial markets and structural shortcomings in the foreign currency regime.

In this effort, we shall restrain asset size competition and herd behavior by tightening macro-prudential supervision and loan-deposit ratio.

We have also been implementing measures to strengthen financial companies' foreign currency soundness.

And we are taking a fresh look at whether additional steps are needed to further strengthen our foreign currency liquidity regime.

One important goal in this endeavor is not to be left vulnerable to extreme volatility each time external destabilizing factors happen.

At the same time, we will continue to fine-tune regulations in the context of both international consensus and our unique market considerations.

I would add that we will continue to embrace global standards.

Nevertheless, we shall thoroughly evaluate proposed standards to ensure that they contribute to the development and growth of Korea's financial markets.

In respect of regulatory efficiency, regulations in need of tightening will be tightened in order to enhance soundness.

But where we see excessive rules and regulations that get in the way of healthy and productive activities, we will not hesitate to relax them.

Let me also note that the government is re-assessing our consumer protection framework with the goal of bringing it up to the highest global standards and safeguards.

Enhancing Financial Industry Competitiveness

Fourth, we are looking to further enhance the competitiveness of the financial industry as a key future growth engine.

In terms of global competitiveness, our financial industry still lags behind Korea's top-tier manufacturing sector.

Ladies and gentlemen!

A re-alignment of the global financial order is under way in the aftermath of the financial crisis.

So Korea's financial industry must seize the opportunity and take full advantage of it.

You may be interested to know that the government is now gradually implementing the "Vision for Enhancing the Financial Sector" that three top think tanks proposed.

Along with this, we are encouraging financial institutions to attract overseas talent and expand into overseas markets with bold localization strategies.

Efforts will also continue on positioning Korea as a financial hub specializing in asset management, derivatives, and financial planning services.

III. Concluding Remarks

I have briefly described some of the key issues we face and the major elements of our financial policy.

Korea has been widely praised for its effective response to the financial crisis and its fast-paced recovery from the crisis.

Yet, we still see many critical post-crisis changes and challenges in the global economy and the financial environment.

So we will not be complacent and continue to strive for more secure, more resilient financial markets.

Let me conclude by saying what a pleasure it is to meet so many foreign opinion leaders in Korea.

I very much appreciate your continued interest in Korea and look forward to meeting you again.

Thank you very much.