
Asia House Corporate Program
Luncheon Speech
Tuesday, September 8, 2009
Asia House, London

LUNCHEON SPEECH

**KOREAN ECONOMY & FINANCIAL
SUPERVISION**

KIM JONG CHANG

GOVERNOR
FINANCIAL SUPERVISORY SERVICE

Ladies and gentlemen,

I am delighted to speak to you today. It's wonderful to be here with you. Before I begin, I would like to thank Asia House, Chairman Charles Miller Smith, and his staff for arranging today's meeting. I also thank you for taking time out of your busy schedule to join us.

One of my colleagues told me that Asia House is a "must-visit" center for anyone with an interest in interactions between Asia and Britain. So I feel assured that I am doing something right by coming here this afternoon.

As some of you may know already, the English Premier League has been growing enormously popular in Korea in the past few years. One reason is Korean players like Park Ji-Sung who play in the league. The level of excellence from some of the world's best football teams also excites Korean fans.

The English Premier League is obviously the place to be for the world's best players. I have also heard it said that London, a global financial center, is a league of its own for the world's leading financial service companies. You may be interested to know that London is a benchmark for us, and we are striving to emulate its success in Korea as an Asian financial center. It is a continuous, gradual process, and I am glad that I am in London to speak to you and hear from you.

I would like to think that today's meeting is very much a part of that process, and we can perhaps add something positive to it.

So, let me begin by bringing you up-to-date on how the Korean economy and financial markets are doing.

We now see clear signs that the Korean economy is bouncing back from the bottom of the global recession at a fairly healthy pace. The economy posted positive back-to-back growth for the first two quarters of the year. And, among the OECD countries, Korea is growing at the fastest pace with its composite leading indicators advancing for seven consecutive months.

Confidence and optimism are back in Korea's financial markets as well on more upbeat outlook for the global economy and aggressive crisis response by the government. Korea's benchmark stock price index, which tumbled to 940 last October, has now risen back to the pre-Lehman crisis levels of around 1,600.

Likewise, the won-dollar exchange rate, which shot up as high as 1,570 won per dollar, now hovers around 1,250. The credit default swap spread on Korea's sovereign debt also plunged from close to 700 to around 140 basis points.

In the inter-bank lending market, Korean banks are now rolling over all of the maturing short-term borrowings, compared with about 50% at the height of the financial crisis. In the local stock markets, foreign investors turned into net stock buyers in March, and as of August the net investment amount totaled 21.7 trillion won or about 17.5 billion dollars.

Moreover, despite the stress caused by the crisis, Korea's banking sector has stood its ground and has fared well compared with others in the developed countries. As of June, the ratio of nonperforming loans stood at 1.5%—well below 4.4% for U.S. banks and 2.4% for Japanese banks. And, at 13.74%, the BIS capital ratio is up almost three percentage points from 10.86% last September. The loan-to-deposit and short-term foreign debt ratios, which some market observers saw as somewhat high, have fallen to 98.7% and 27.9%, respectively.

Ladies and gentlemen,

Korea's recovery from the global recession was fueled by a combination of factors. One that I would emphasize with confidence is Korea's integration of financial regulation and supervision a decade earlier. The integration brought four separate oversight bodies under one roof and laid a firm foundation for strong prudential financial oversight. The conservative loan-to-value and debt-to-income requirements we effected years ahead of the subprime loan crisis in order to minimize the risk of large-scale mortgage default is an example of this.

In terms of policy response to the global financial crisis, expansionary fiscal and monetary policy measures were taken to cushion the impact of the crisis and keep the economy on the growth track. So, beginning in October 2008, the policy interest rate was cut by 3.25 percentage points, and fiscal spending and tax cuts totaling about 5% of the GDP were implemented. Increased support was provided for business financing, including expanded credit guarantees for small businesses. And currency swaps with major foreign central banks were expanded.

Government backing was also given to domestic banks' foreign borrowings in order to ensure ample supply of foreign currency liquidity. At the same time, we extended our full support to bank recapitalization, disposition of nonperforming assets, and creditor-led restructuring of distressed companies.

All in all, the swift manner in which the government and regulators dealt with the crisis helped to cushion its impact, remove uncertainty in the market, and pave the way for a solid economic recovery.

Although the pace of Korea's economic recovery has been more vigorous than previously anticipated, it is still premature to be overly optimistic. The sluggishness in business investment and consumer spending suggests that the economy is still some ways off from self-sustaining, private sector-driven growth. Weaknesses in the global economy, highlighted by anemic consumer spending and high unemployment in the developed countries, will also likely have a dampening effect on Korea's export-driven economy.

So what we envision for the near-term is continuation of expansionary policies already under way and financial market policies consistent with the growth of the real economy until the private sector can lead growth on its own again. This will mean, among others, restructuring of distressed companies and disposition of nonperforming assets on an ongoing basis. Doing so will not only help remove distress and uncertainty in the market, but also send a positive, reassuring signal to investors.

I would also emphasize that, as policymakers steer the economy out of the crisis phase, we intend to step up our micro-supervision so that liquidity expansion made necessary by the crisis does not lead to anomalies such as a surge in mortgage lending.

We also understand the critical importance of global response in producing effective solutions to the problems the crisis revealed and in preventing future crisis. As you know, Korea was widely praised for dealing with the 1997 Asian Financial Crisis head-on. And, in the process of recovering from the crisis, we learned some valuable lessons.

Korea is now a member of G-20, the Financial Stability Board, and the Basel Committee on Banking Supervision. And I believe this gives us an opportunity to make meaningful contributions to the ongoing discussions on establishing a new, post-crisis global financial order. We are joining post-crisis efforts now under way by bank regulators to reduce procyclicality, raise the quality of capital, and strengthen bank funding liquidity. In recognition of today's globally interconnected financial markets, we are also stepping up our macroprudential supervision so that we can better respond to risks to the financial system.

Ladies and gentlemen,

Korea's financial services industry has made significant strides over the years. In terms of global competitiveness, however, we know the industry has some ways to go. So we are forging ahead with our regulatory reform to encourage

market innovation and competition. The Financial Investment Services and Capital Markets Act that took effect in February this year is an example of this. Our expectation is that it will unleash a wave of market dynamism and help the industry advance to the next level as did the 1986 Financial Services Act for the U.K. financial services industry.

And I must stress that we remain unchanged in our commitment to building a truly global financial services market in Korea. Fn Hub Korea, a service center we created for this very purpose, has been working to make it easier for foreign financial companies to do business in Korea. And we will continue to work hard to make Korea an attractive place to live and work for foreign finance professionals.

Ladies and gentlemen,

Like old friends, Britain and Korea have known each other for the past 120 years or so. We have close and vibrant bilateral relations. Trade between the two countries now exceeds 10 billion dollars, and more than 200,000 Koreans visit Britain each year.

I will end my talk today by recalling a quote by Edward Young, the poet, that friendship is the wine of life. So, just as we savor a finely-aged wine, we value the warm, mature bilateral friendship and relations the two countries enjoy. The very same is true for financial industries of the two countries.

I appreciate your continuing interest in Korea's financial markets. And I look forward to vigorous engagement with you to further advance our mutual interests.

Thank you.