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Good afternoon, ladies and gentlemen.

I am pleased to be with you today and would like to thank everyone for coming. I know I am speaking before dedicated and distinguished foreign correspondents who cover Korea day in and day out, and I for one have deep respect and admiration for the important work you do here. So this is certainly a special occasion for me. And since we just passed the Lunar New Year, I would like to wish everyone a happy new year and much success with your work.

This afternoon, I would like to share with you my views on some of the recent changes taking place in the Korean economy and in the financial market as well as the major supervisory issues we will likely deal with this year.

Despite weak domestic demand, the Korean economy managed to grow at a fairly strong pace last year—estimated at about 5 percent—on the back of strong exports. But with Korea's major export markets and the global economy expected to grow somewhat less vigorously and the Korean won expected to remain strong, the export sector is also expected to come under some pressure this year.

On the other hand, we do see some encouraging signs for the domestic demand, which remained sluggish last year. First, various indicators suggest that the worst of consumer debt problems may be behind us with improved debt-servicing capabilities of households. And there are signs that consumer confidence is coming back and consumer spending will pick up this year. Corporate investment—another key component of domestic demand—is also expected to accelerate this year. Although there could be some corrections in construction investment, capital expenditure is likely to show a solid growth this year as well. The equity market, off to a strong start, is another encouraging sign for the economy this year.

So, unlike last year when the growth was mostly export-driven, the economy is expected to show a more balanced growth by the second half of this year with domestic demand gaining momentum.

Despite the encouraging signs from the real sector, however, we very much remain focused on the overall safety and soundness of the financial system, particularly on the soundness of assets held by financial institutions given the uncertainty over the strength of the economic recovery.

Asset soundness demands our attention for a number of reasons. One is the potential risk economic slowdown can pose on asset soundness. Although the economic outlook for the second half of the year is encouraging, we will continue to face some degree of uncertainty during the first half of the year. We also recognize that asset soundness tends to lag behind the real economy and that credit can be squeezed by lending institutions worried about asset soundness. Such concerns may be justified for some of the second-tier lenders like mutual savings banks and credit unions.

But, overall, we do not expect domestic banks to face any difficulty maintaining their capital adequacy and asset soundness given their relatively strong levels of provisioning and capital bases.

Since the year 2000, a sizable pool of market funds has been sitting idly or flowing quickly in and out of short-term investment opportunities. This has been one of the key factors for volatile asset prices. But no that long-term corporate investments appear to be gathering strength, and investors are becoming less risk-averse, we could expect to see more normal flow of funds. But redirecting this pool of funds to stable, long-term investments will depend, to a significant degree, on how banks manage their assets because banks still effectively hold about 70% of financial assets.

I would also like to add a couple of observations about issues like securities class action suits, hostile M&As, and unfair trading. Without a doubt, many Korean companies have been making significant strides in improving corporate governance and transparency. But looking ahead, even some of these companies may be put to the test because of the securities class-action suit that took effect January 1 this year.

There are also ongoing debates about striking the right balance on the legal and regulatory frameworks for hostile M&As. It’s certainly not an easy task, and I would hope that we do not lose the sight of the important goals we are all trying to accomplish in the marketplace.

We expect foreign financial services companies to continue to expand their presence in Korea and push the competitive landscape for the local financial services industry into a new ground. In particular, with the addition of Citibank Korea and the takeover of Korea First Bank by Standard Chartered Bank, we will likely see more competition than ever before. In fact, it would not be surprising to see the competitive pressure from the growing foreign presence spill over to asset management, insurance and other financial services and products in the near future.

I would like to now turn to financial supervision and give you an outline of our supervisory agenda for the year. Broadly speaking, the supervisory agenda we envision can be divided into four areas: (1) the safety and soundness of the financial services industry, (2) market competitiveness and efficiency, (3) regulatory reform, and (4) consumer protection.

First, we will continue to keep a close watch on asset soundness. In particular, with respect to the credit quality of loans to small and medium-sized enterprises, we will step up monitoring of those loans and act promptly and preemptively at the first sign of problems. But we also recognize the risk of excessive credit tightening that can result from our prudential supervision and thus a need to carefully calibrate our supervisory actions.

Aside from the perspectives of supervisors, I think it's important to note the key role SMEs play in our economy in terms of taking in some of the slack in the labor market and stimulating economic activities. So it is to be hoped that more lenders will put less emphasis on borrower collateral and more on the borrower's future debt-servicing capability when making credit decisions, particularly for companies with strong growth potentials.

As for the soundness of household loans, of which mortgage loans make up a fairly large share, we will need to closely watch developments unfolding in the real economy as well as in the real estate market and stand ready to act. It's never easy to predict how the real estate market will behave. But if the evidence continues to point to more stability and calm with little or no sign of speculation, there may be some room to raise the loan-to-value ratios for long-term mortgage loans. I should add that the relatively short-term maturity concentration of mortgage loans is an issue we are looking at closely. I also see a need to make more concerted efforts to help individuals with troubled credit history make more effective use of the existing credit repair programs and other consumer credit services.

As I mentioned earlier, some of the second-tier lenders like mutual savings banks and credit unions will most likely come under pressure this year because of their exposure to loan defaults from households and SMEs. So one of the key supervisory challenges we will face this year will be closely monitoring the credit quality and the capital adequacy of the second-tier lenders and taking the necessary corrective actions to ensure their solvency.

The second major issue on our agenda is taking new initiatives to promote the overall competitiveness and efficiency of the financial market. Such an endeavor will of course entail concerted efforts on a range of issues. For example, channeling the pool of idle and unproductive private funds into stable and long-term investments in the capital market so that they can be put to productive uses in the economy is clearly one example. Indeed, given the critical role the capital market can play in stimulating the economy and promoting its long-term growth potential, we will continue to work hard to improve the efficiency of our capital market this year. In this regard, I believe new steps are needed to boost the corporate bond market. We would also like to see a greater variety of indirect investment vehicles made available to investors and more large-sized investment funds that are geared toward long-term investments.

We will also continue to stress strong regulatory enforcement and market discipline to ensure orderly and disciplined conduct in the marketplace. To this end, we are looking to expand the quarterly review of financial reports and take more coordinated approaches to combat financial crime. We are also looking to broaden the range of people who are considered corporate insiders for regulatory and enforcement purposes with the goal of rooting out insider trading and other insider abuses.

Along with these efforts, we also hope to do what we can to avoid any unproductive debates on issues like the securities class action suit and hostile M&As. For issues like giving companies a reprieve for past accounting problems, we will need to see what comes out of the proposals currently under debate at the National Assembly. So it is still a work in progress, and I very much hope that we can come to a consensus soon. Likewise, there is a debate about how the issue of hostile M&As should be framed and dealt with. I believe the key issue for us is striking the right balance in any approach we take so that companies do respect genuine market forces but are not constantly distracted by the threat of hostile takeovers. So, with respect to our supervisory role in corporate M&As, I would say that the focus should not be on protecting the controlling shareholder, but on making sure that no one is put at a disadvantage and every company has a fair chance of achieving its goals.

The third major issue on our agenda is regulatory reform. I should perhaps point out that the regulatory reform we envision entails much more than getting rid of or relaxing regulations currently in place. That is, we would like to take a more comprehensive approach to easing or strengthening regulations after taking into account such factors as the prevailing level of market discipline and the intended goal and the effectiveness of the regulation in question. So, we will push for easing of regulations to promote competition in the marketplace but will also at the same time push for stronger regulations where necessary to protect the safety and the soundness of financial institutions as well as the integrity of the financial market.

As for the areas where regulatory easing is likely, there are plans to allow trust services and credit derivatives for securities companies and ease restrictions on their sales and other business activities. There are also plans to put the domestic insurance industry on a more competitive path. To achieve this goal, the range of business activities allowed for insurance companies will also likely see some increases. Restrictions on foreign-currency-denominated assets and asset management services for insurance companies are likely to be eased as well.

We also plan to strengthen the fit & proper test for shareholders holding, or seeking to hold, a significant interest in financial institutions as a step to make sure there is no loose end in our fit & proper test. Tying loose ends in our regulatory system and prudential standards will be particularly important as we move forward with deregulation and put increasingly greater emphasis on market discipline.

With respect to financial supervision, we intend to refrain from direct supervisory actions and put a greater emphasis on risk-based supervision. First, we will continue to reinforce the early warning systems already in place to identify early signs of distress and step up continuous monitoring of financial institutions to preempt any potential distress or risks. We will also take steps to facilitate the ongoing transition to the relationship manager system for the examiners and reinforce risk-focused examination of financial institutions.

As cross-border investment and other financial activities continue to grow, we are increasingly seeing a need to more effectively deal with unfair trading and other illegal activities involving foreign individuals and entities outside Korea. Establishing close working relationships with foreign supervisory authorities through formal and informal agreements and understanding is one way to address this problem. So we intend to move aggressively on this front and coordinate our supervisory activities with foreign supervisory authorities whenever we can.

Lastly, consumer protection is one of our key responsibilities, and it will certainly remain a major area of focus for us this year as before. We will continue to reinforce and come up with new consumer education programs to help them make informed and responsible decisions on financial services and products.

We will also continue to look for ways to help consumers exercise their rights on a more equal footing against financial services providers that engage in abusive sales tactics or other harmful business practices.

I would like to conclude my remarks this afternoon by reiterating our commitment to building a safe and sound financial system that promotes fairness, efficiency and competition for all market participants both at home and from abroad.

I know that some have recently been raising their voices against the growing presence of foreign investors and the flow of foreign capital in our financial market. Their expressed concern is that foreign investors are threatening even Korea's top-notch companies with hostile takeover bids, that they are demanding excessive dividends, and that they are only interested in short-term capital gains. But such criticisms reflect only a small part of the picture. And, on balance, the benefits that foreign investment has brought to Korea have been unquestionably positive. Indeed, the influx of foreign capital following the 1997 financial crisis was crucial in supporting the very foundation of the Korean economy and our confidence for the future.

To be sure, Korea did its part by aggressively opening and liberalizing its market on a scale unprecedented elsewhere. Looking ahead, whether it's promoting corporate governance, innovative financial management or market competition, I have no doubt that foreign investors will continue to play a positive role in Korea.

These are also important catalysts for the kinds of changes we are trying to make to transform Korea into a leading financial hub for Northeast Asia. To this end, we will focus our efforts on creating an investment climate that continues to attract new capital, new investors, new skills, and new talents throughout our economy.

And as we have repeatedly stressed, we will also respect the principle of "a level playing field for all" and will act accordingly. I do note that the same principle will apply equally to foreign investors who violate our law or regulation. The principle of "a level playing field for all" is but one aspect of the kinds of "global standards" that we are embracing to position Korea as a truly dynamic global marketplace.

And as Korea's market supervisors, we have an important task ahead of us, and I would like to conclude my remarks this afternoon by reaffirming our commitment to this challenge.

Thank you.