

Opening Address

delivered by

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at

**the 3rd Workshop for Worldwide Central Banks
on “Beyond Financial Reform: New Challenges
and Policy Responses”**

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Ladies and gentlemen,

Let me welcome all of you to the workshop for worldwide central banks, which is being held for the third time this year. I believe that these workshops provide good opportunities for sharing our varied experiences on overcoming financial crises and also for broadening friendship among central bankers.

The theme of this year's workshop is "Beyond Financial Reform: New Challenges and Policy Responses". Many East-Asian countries including Korea have achieved good results through financial reforms since the Asian currency crisis of 1997, but many tasks still lie ahead. In this respect, I am sure that this workshop will be useful to all of us as central bankers.

It is well known that Korea carried out intensive financial reforms after the currency crisis of 1997. In the course of the drive, only 19 out of 33 banks survived and about 40 percent of employees in financial institutions lost their jobs. In addition, 165 trillion won of public funds was injected into the financial system in order to clear off non-performing loans and recapitalize financial institutions.

This amount is equivalent to around 160 billion US dollars, in terms of the current exchange rate.

Thanks to this drastic structural adjustment, domestic commercial banks' NPL ratio fell sharply from 14 percent at the end of 1999 to 2 percent at the end of last year, and their average BIS capital adequacy ratio rose from 7 percent at the end of 1997 to 11 percent. Last year, the scale of their net income registered its highest-ever figure of around 6 billion US dollars.

In addition, the financial infrastructure including related legislation and practices has been improved to approach global standards. These reforms have not only bolstered the management status of individual financial

institutions, but also increased the stability of the whole financial system.

We cannot rest on our laurels from these financial reforms. Korea has the ambitious vision of becoming a financially-advanced country and, what is more, acting as the financial hub of Northeast Asia. To realize this vision, we intend to consistently strengthen our efforts for the reform of the financial sector from a medium- and long-term perspective. Now, I would like to say a few words about the future course of Korean financial reforms from this viewpoint.

First, future financial reforms should be market driven. Just after the currency crisis, almost all financial institutions were hit by non-performing loans and the financial markets did not function well. In this situation, it inevitably fell to the government to initiate financial reforms.

However, the management soundness of individual financial institutions has been improved and financial markets are operating as they should. In these circumstances, it is desirable for financial reforms to be driven by the market mechanism. This is expected to promote financial development further by heightening the competitiveness of individual financial institutions and the efficiency of the financial markets. Meanwhile, the government and the central bank should play a pivotal role in enhancing the stability of the financial markets and consolidating the financial infrastructure.

Second, the financial industry should be developed into a knowledge-based industry that creates high value-added in its own right. Before the currency crisis, the Korea's financial industry was content to play a passive role, supporting quantitative growth in the real economy, while the business autonomy of financial institutions was not fully assured.

This state of underdevelopment has already improved in the course of

the reforms following the currency crisis. The financial industry is now evolving as a major business sector in its own right. For its ongoing development, it should strive for international competitiveness in line with the pace of financial globalization.

What is more, Korea is creating an advanced industrial structure centering on knowledge-based services as well as high-technology manufacturing. Korea's financial industry should emerge as a core provider of knowledge-based services.

Third, the direct financial markets should be given further encouragement to achieve balanced development with the indirect financial markets that have traditionally centered on banks. If the financial markets can thereby achieve a multi-layered structure, the efficiency of financial intermediation will be upgraded. At the same time, the multiple channels of financial intermediation will act as a buffer, absorbing and dispersing negative impacts, even when a financial shock occurs.

Fellow central bankers,

Over the coming four days, we will have deep discussions about these topics. I look forward to all participants having the opportunity to pool their countries' experiences and to gain useful information and insights from this workshop.

Now, Korea is entering the height of summer when the weather turns sultry. Although you may not find it easy to get accustomed to this weather, I hope all of you have a healthy and happy time during the period of your stay here.

Thank you.