



New Global Financial Environment and Development Strategies for the Korean Financial Markets

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**(Views expressed here are not necessarily those
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Lessons from the 2008 Global Financial Crisis?

- Complexity is not innovation
- Leverage is not credit
- Risk dispersion is not risk reduction
- Self-regulation (light touch regulation) is no regulation
- Disclose before distributing

These things change, post-crisis? “Yes, already changing”



The “New Normals” for the US and the Global Economy?

US provides two key global (economic) public goods

- 1.** Dollar as the major reserve currency, and
 - 2.** A deep and liquid international financial market
- The two are inter-related: you cant have one without the other

Will the US’ role in both these areas diminish, going forward? “Possible, but not imminent?”



The “New Normals” for Global Finance?

- Less securitization?
- Less investment banking, and more deposit-based banking?
- More transparency and information disclosure?
- Tighter regulation and supervision?
- More multilateral coordination?

“Yes, to varying degrees”

- Go back to the 3:6:3 mode?

“Very unlikely”

How has the Korean Financial Market Emerged Between the AFC and the GFC ?

- Quick to resolve NPLs, recapitalize, restructure, and reform the financial sector after the AFC
- Embraced financial globalization subsequently
- One of the early securitizers in East Asia
- A strong retail banking and asset management industry
- Third largest capital market in Asia (behind only Japan and China)
- Seoul's global ranking as a financial sector improved several notches
- Aspires to make Seoul the “Northeast Asian Financial Hub”
- Financial services, accounting for a modest 5% of GDP now, has a huge potential to grow

Overall, emerged quite well between the two crises

What Does the GFC and the “New Normals” of Global Finance Mean for Korea?

- Has the GFC come at the wrong time for Korea’s financial market development plans and aspirations ?
- Felt the reverberations from the US crisis the most among in East Asian countries
- Managed the GFC shock well through a quick swap line with the FED and selective prudential measures on the financial sector subsequently
- Going forward, as key member of G20, has a role in multilateral agenda setting on financial regulation
- Would benefit from building the necessary regulatory and supervisory framework sooner than later (adapting to the “new normals”?)
- Given that the Korean financial market is in its early stages of development, however, it is important not to stifle it by over-regulation
- Need to strike a balance between government regulation and market freedom

Not an easy job, of course! Will the “dynamic Korea” manage it? “ Most probably yes”



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