

**Welcoming Speech by
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Welcoming Speech

for the Third Forum for Asian Insolvency Reform

Seoul, Korea

[Opening]

Good morning, ladies and gentlemen.

I am honored to have this opportunity to welcome you to the Third Forum for Asian Insolvency Reform.

I know that the first and second forums have already produced much productive discussion on the reform of insolvency law.

The focus of the third forum has been shifted a little to ‘Maximizing the Value of Distressed and Non-Performing Loans’. This is aimed at facilitating smooth corporate restructuring through the minimization of the cost of corporate liquidation.

And I agree that this subject is one that must be addressed by this forum together with institutional and juridical reforms regarding insolvency.

Ladies and gentlemen,

Korea has undertaken significant financial and corporate restructuring over the past several years.

As a result, Korea has gained much valuable experience in dealing efficiently with non-performing loans. In that respect, I believe it is very appropriate for this forum to be held in Korea, providing an opportunity for us to share our experiences with our neighboring countries on NPLs.

[Korea's experience in structural reform]

Ladies and gentlemen:

You know that the 1997 financial crisis was a very painful one for Korea. Over thirty thousand companies went bankrupt, leaving banks with huge non-performing loans. The resulting deterioration of banking sector soundness led to financial instability, which in turn led to further economic weakness.

Consequently, Korea experienced a deep recession with a quadrupling of the unemployment rate.

However, every cloud has a silver lining. And the financial crisis also became a driving force in a massive wave of much-needed and widespread structural reforms.

Let me elaborate.

[Financial Restructuring]

By using public funds, the government liquidated insolvent financial institutions and improved the financial soundness of the remaining ones.

More specifically, the government established the Korea Asset Management Corporation, KAMCO, and purchased some one hundred ten trillion won of NPLs from ailing financial institutions.

Of course, KAMCO has since made arduous efforts to recover those costs.

Thus far, sixty eight trillion of NPLs at face value have been unloaded through various means such as Asset Backed Securities issuance and international bidding, yielding 32 trillion won.

This amount is in excess of the twenty eight trillion won actually put in by the government. At the same time, financial institutions were able to quickly unload their NPLs at reasonable prices, thereby quickly improving their balance sheet soundness.

As a result of such efforts, Korean financial institutions' NPL ratio has decreased dramatically from 13% in 1999 to just 2.3% in 2002.

Given the striking results of the government's financial restructuring efforts, the government is currently wrapping up the first stage of restructuring and is moving toward the second, more market-oriented stage of restructuring.

The second stage of financial restructuring will be propelled much more by market participants, as well as timely corrective action by the Financial Supervisory Authority.

[Corporate Restructuring]

Ladies and gentlemen,

The Korean Government naturally pursued corporate restructuring in parallel with financial restructuring.

This was intended to prevent financial institutions from accumulating new non-performing assets.

First, the insolvency law was amended to facilitate and speed up the court-driven process of liquidation or rehabilitation of ailing companies.

At the same time, KAMCO played a major role in advancing the liquidation or rehabilitation process by disposing NPLs through M&A and sales to Corporate Restructuring Companies (CRCs). In addition, the government established the 'on-going restructuring system,' by passing the Corporate Restructuring Promotion Law.

In this system, creditor financial institutions regularly assess the credit risk of debtor companies, so that increased credit risk is detected at an early stage, and prompt and self-driven corporate restructuring is set in motion quickly.

[Challenges ahead]

Ladies and gentlemen,

I believe that the sharp decline in the NPL ratio and much improved earnings of financial institutions suggest that Korea's restructuring efforts have been very fruitful so far.

Indeed, the Far Eastern Economic Review, in July this year, acknowledged Korea as the country that most succeeded in disposing its non-performing assets efficiently and aggressively, among the crisis countries.

However, there are still things to do.

The next restructuring stage will need to focus on the struggling non-deposit-taking financial institutions, such as Investment Trust companies. And we will continue to develop and improve the ‘On-going Restructuring system’.

In addition, by enacting a consolidated insolvency law in the near future, the government will make the Court-centered insolvency procedures further more efficient and prompt.

And I am sure that the Korean government will be happy to share its experiences from future restructuring with all other Asian countries as well.

[Importance of Insolvency Reform – Substructure for Sound economy]

Ladies and gentlemen,

An efficient legislative system for dealing with insolvency and disposing of non-performing assets is key to maintaining a sound economy and solid economic growth.

You know that, even in healthy economies, the emergence of non-performing assets and ailing companies is inevitable. So, it is very important to focus on making effective systems to deal with such problems.

Following the Asian crisis, many Asian countries are currently dealing with unprecedented amounts of bad debts.

This is precisely the reason why constructing an efficient system to deal with these problems is urgent and important.

Hence the significance of this forum and the focus on maximizing the value of non-performing assets.

[Closing]

In closing, ladies and gentlemen,

I very much hope that the third Forum for Asian Insolvency Reform will prove to be very fruitful in generating valuable insights and new ideas in dealing with non-performing assets.

I also hope that the discussions over the next two days will be helpful in promoting further corporate and financial restructuring in Asian countries.

Finally, I wish you all a pleasant stay in Korea.

Thank you.