Korea’s Response to the 2008 Liquidity Crisis

March 2012

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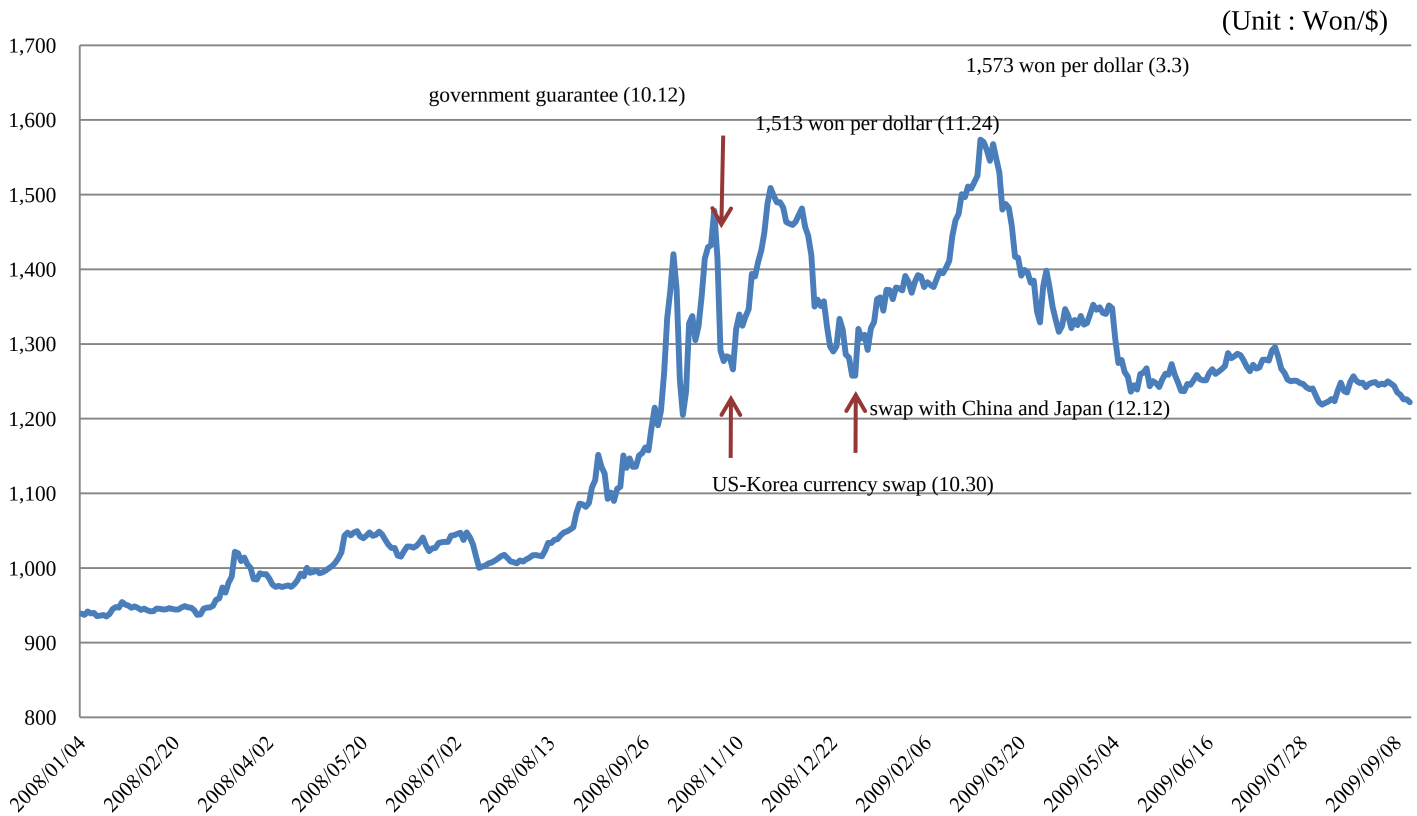
I. Won-Dollar Exchange Rate: January 2008- September 2009



II. What has Korea Learned from the Crisis

- Financial liberalization does not necessarily strengthen the financial system to ward off financial crisis : It could expose the system to systemic risk
- Free floating does help, but speculation could put it on an implosive trajectory
- Need to control capital inflows, but no way of controlling capital outflows

III. All countries-developed or emerging-are susceptible to financial crisis

- The global financial system is riddled with market failures
- These failures dictates creation of a global regime of financial regulation
- The G-20 has made some progress, but is losing the momentum for reform
- Is the global financial system safer than before? Not clear

IV. Where are we now and are going?

- The US dollar is going to remain the dominant reserve currency for a long time to come
- The Fed has proved to be a *de facto* lender of last resort for many countries
- Regional liquidity arrangements such as the CMIM are yet to prove their viability and effectiveness.

V. The IMF and Liquidity Safety Net

- A growing number of emerging economies will continue to accumulate their reserves for self insurance
- Need to expand the role of the IMF as a provider of short term liquidity
- Need to create a global liquidity safety net.