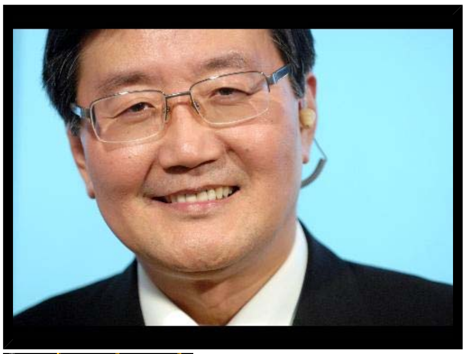
Korea Can Give Economy More Help If Needed, Jun Says (Update3)

By Bomi Lim and Bernard Lo



Enlarge/Details

Oct. 22 (Bloomberg) -- South Korea is ready to take more measures to restore confidence in its financial system if needed, including a package to shore up the economy, the nation's top financial regulator said.

``The follow-up measures any country can take now are fiscal stimulus packages, economic boosting measures,'' **Jun Kwang Woo**, **chairman** of the Financial Services Commission, said yesterday in an interview in Seoul. ``Korea is in the most comfortable position to do just that.''

The benchmark **Kospi** stock index slumped to the lowest in more than three years and the won fell on concern government measures -- including 8 trillion won ($6 billion) to support the construction industry -- won't be enough to avert an economic slowdown. Growth probably slowed to a three-year low 3.6 percent in the third quarter, according to the **median estimate** of 12 economists surveyed by Bloomberg News.

``We certainly have the right kind of support mechanism to be used whenever it is needed,'' Jun, 59, said in the interview. ``Given the enormity of this current round of credit crunch around the world, we cannot live without having an adequate contingency plan.''

South Korea, saddled with a record current account deficit, pledged $130 billion, equivalent to 14 percent of gross domestic product, to support banks as the global credit crunch saps access to foreign funds. The government Oct. 19 agreed to give lenders access to $30 billion in U.S. dollars and guarantee $100 billion of foreign-currency debt.

Kospi, Won

The Kospi tumbled 5.1 percent to 1,134.86 at the close in Seoul, led by **Posco**, after Asia's biggest maker of stainless steel, said it will slash production as demand slows. The index has slumped 40 percent this year.

The won, Asia's worst performing currency this year, fell 3 percent to 1,364.45 to the dollar.

``We may need a stronger package to meaningfully reduce embedded risks in Korea's financial system,'' Morgan Stanley analysts including **Chan Hwang** wrote in an Oct. 20 report. They cited a potential slowdown in exports, a weakening outlook for consumption and financial deterioration at smaller companies as some of the risks Korea faces. Exports account to more than 50 percent of the Korean economy.

``It's always good to have preemptive measures,'' Jun said. ``At the same time, we have to be careful about overshooting.''

Moody's, S&P

The financial-aid package won the support of the three main credit ratings companies. Moody's Investors Service and Fitch Ratings yesterday affirmed South Korea's sovereign credit ratings. Standard & Poor's, which last week sparked the won's biggest one- day drop since 1997 by placing the five biggest banks on review for a rating cut, said the bank plan is more ``swift and broad'' than expected.

South Korea's central bank may buy debt from lenders, Finance Minister **Kang Man Soo** said today after a Korea Economic Daily report that the Bank of Korea may purchase 25 trillion won of local bank debt maturing by the end of the year.

``We expect there will soon be an action plan on details of buying bank bonds, Kang told lawmakers in Seoul.

South Korea joined the U.S., Europe and Australia in providing lenders with state backing after S&P warned that banks in Asia's fourth-largest economy may struggle to secure overseas funds.

Debt Ratio

President **Lee Myung Bak** said yesterday the global financial turmoil is worse than the 1997-98 Asian crisis that forced South Korea to accept an International Monetary Fund bailout.

``We are a lot better equipped than 10 years ago,'' said Jun, who earned a doctor's degree in finance at Indiana University in 1981. Korean companies have become more competitive globally over the decade, and banks' capital and asset quality remain sound, he said.

South Korea's **debt ratio** is near the lowest among major economies, according to the Organization for Economic Cooperation and Development. The country's financial liabilities stood at 28 percent of GDP in 2006, compared with Japan's 180 percent and 62 percent in the U.S., according to the OECD Web site.

South Korean banks' capital adequacy ratio stood at 11.36 percent at the end of June, compared with the U.S. average of 12.36 percent, according to the Financial Supervisory Service. Korean lenders' nonperforming loan ratio dropped to 0.7 percent at the end of June from three months earlier.

The delinquency ratio on corporate loans rose in the third quarter as more small firms were late on payments, the **watchdog agency** said today. The delinquency ratio rose to 1.35 percent at the end of September from 1.22 percent at the end of June.

The chief executive officers of 18 banks in Korea met today and agreed to cut executive salaries and operating costs ``to share the pain of our people.''

The lenders will consider rescheduling debts and allowing borrowers to repay in installments, according to a copy of the resolution released by the Korea Federation of Banks.

To contact the reporters on this story: **Bomi Lim** in Seoul at **blim30@bloomberg.net**; **Bernard Lo** in Hong Kong at **blo2@bloomberg.net**

Last Updated: October 22, 2008 02:07 EDT