

# **Korea's Financial Markets and Economy :**

## **Resilience Amid Turbulence**

**November 2008**

**Financial Services Commission**

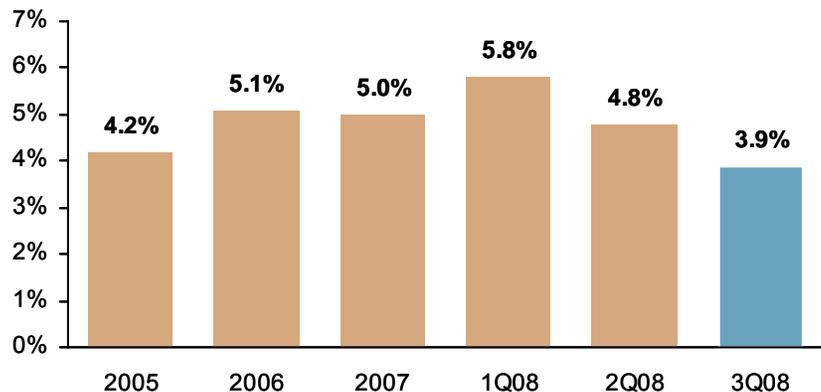


# Macroeconomic Fundamentals



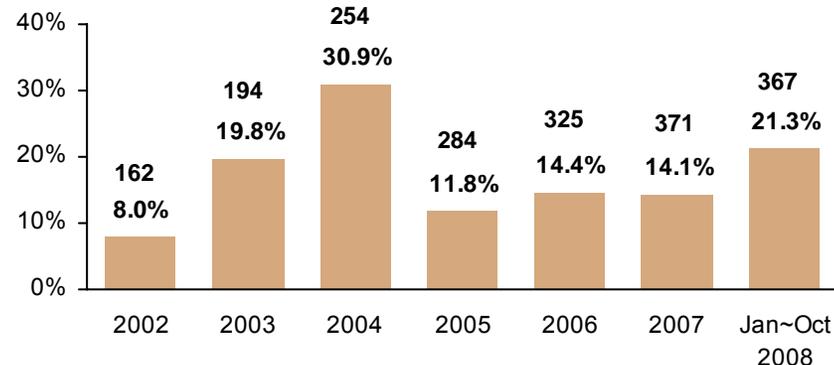
# Macroeconomic Fundamentals

## GDP Growth



## Export Growth

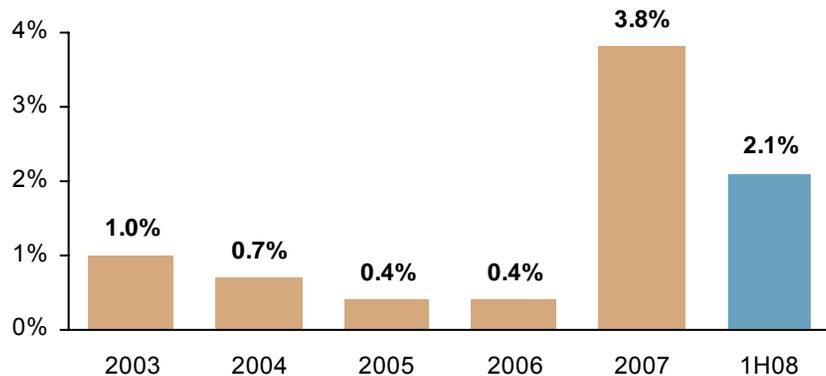
### Exports (US\$ bn, YoY Growth, %)



Source: Bank of Korea

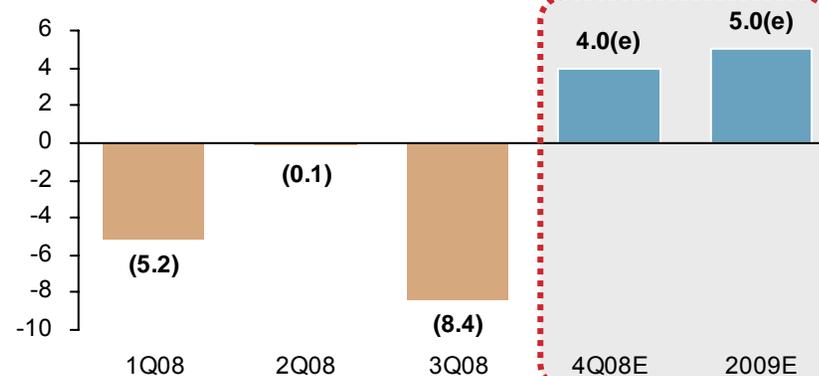
## Fiscal Surpluses

### Consolidated Government Balance (% of GDP)



## Current Account Balance

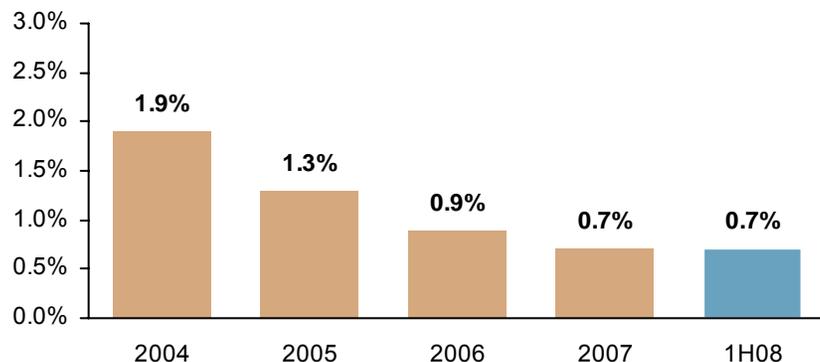
### 2008 Current account balance (US\$ bn)



# Financial & Corporate Sector Trends

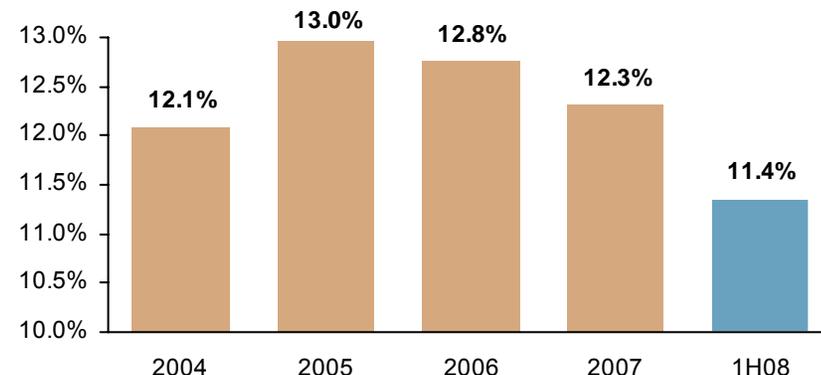
## Asset Soundness

### Avg. NPL (%)



## BIS Capital Ratio

### BIS Ratio (%)



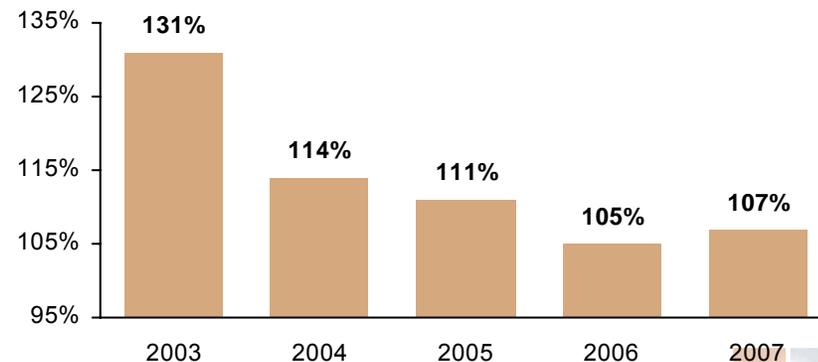
## Earnings of Listed Companies

(US\$ bn)	H1, 2007	H1, 2008	Growth
<b>Revenue</b>	355.0 (328.9)	440.0 (401.2)	23.9% (21.9%)
<b>Operating Income</b>	31.7 (22.6)	39.2 (32.4)	23.9% (43.7%)
<b>Net Income</b>	30.0 (22.7)	30.3 (24.4)	1.0% (7.8%)

\* Includes companies listed in the MSCI Index

## Debt / Equity Ratio

### Debt / Equity Ratio (%)



\* Includes companies listed in the MSCI Index

**Concerns and Facts:**

# **Fallout from Global Financial Crisis**



# Concerns

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**#1**

**Korea is at risk of external debt defaults.**

**#2**

**The Korean banking system is too leveraged and faces a liquidity crisis.**

**#3**

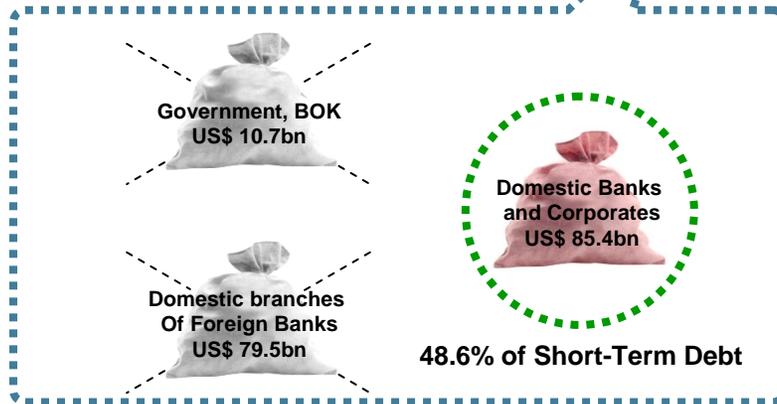
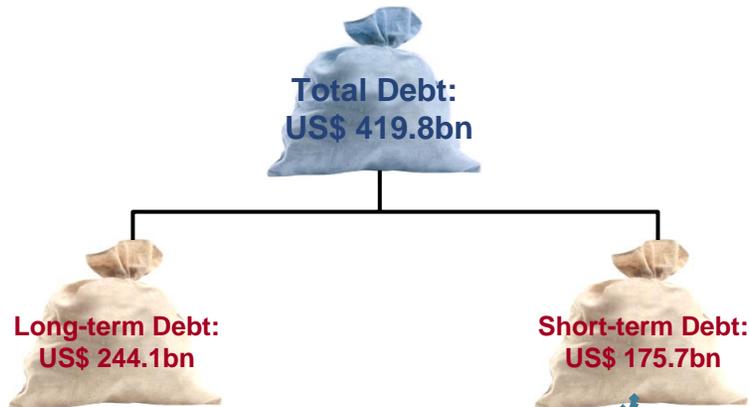
**The Korean real estate sector is under stress and may collapse.**



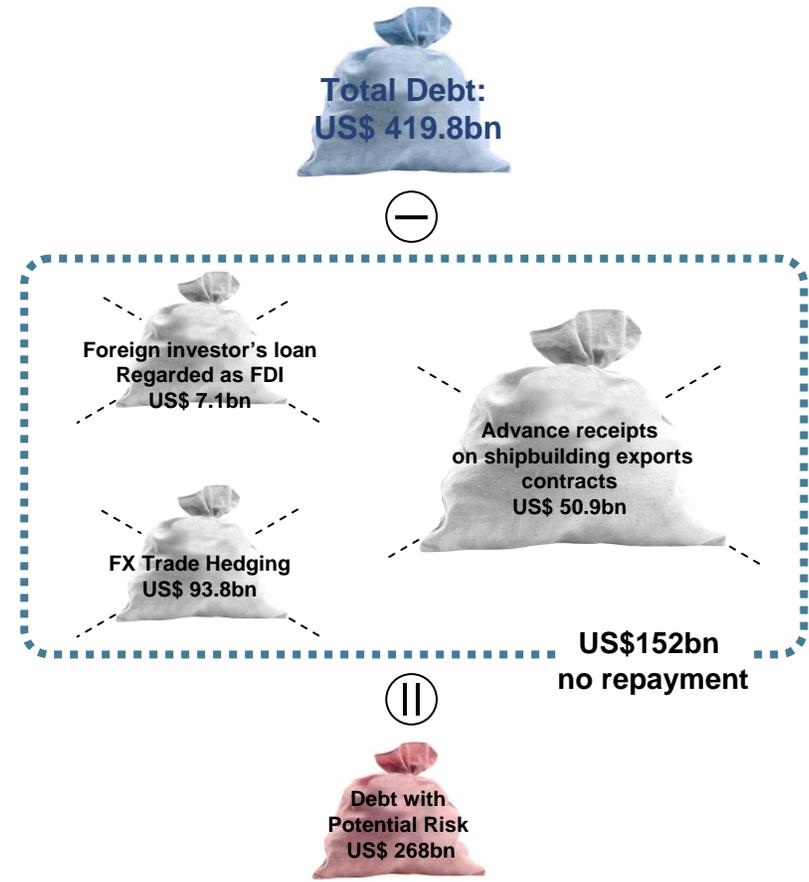
# #1-1 External Debt

➔ Facts: A substantial portion of Korea's external debt is risk-free

## Balanced Short and Long-term Debt



## Large Portion of FX Debt is hedging

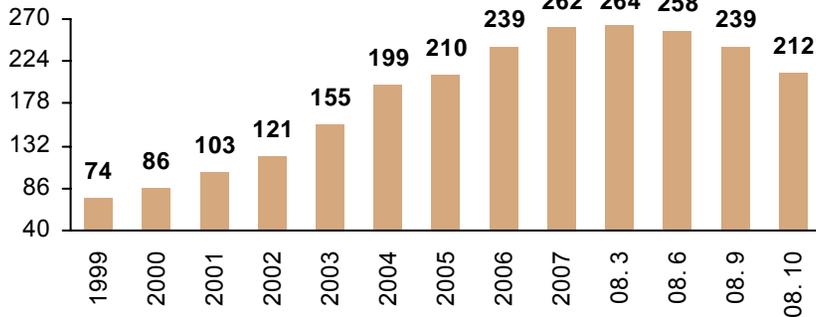


# #1-2 Foreign Reserves

➔ **Facts: Korea has the world's sixth largest foreign reserves; most are highly liquid assets.**

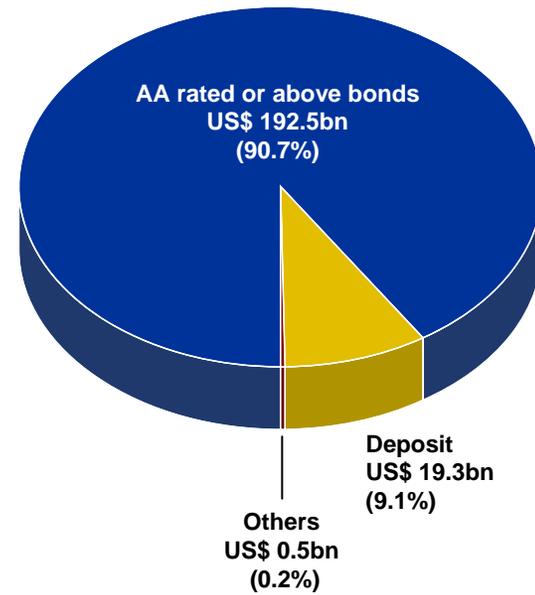
## Ample Foreign Reserves

FX reserves (US\$ bn)



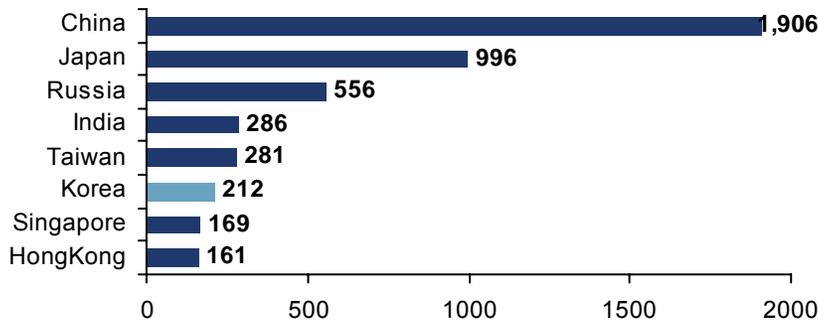
## Highly Liquid Foreign Reserves

Total reserves (US\$ bn)



## World's Sixth Largest Reserves (Oct 2008)

FX reserves (US\$ bn)



<sup>1</sup> Includes Hong Kong (AA+), Slovenia (AA), Portugal (AA-), Italy (A+), Chile (A+), Czech Republic (A) and Estonia (A). Credit ratings by S&P. Source: IMF.

Source: Bank of Korea



# #2-1 Bank Liquidity

➔ **Facts: There is no mismatch between foreign currency managing and financing held by Korean banks. Foreign currency liquidity ratio remains high.**

## No Currency Mismatch

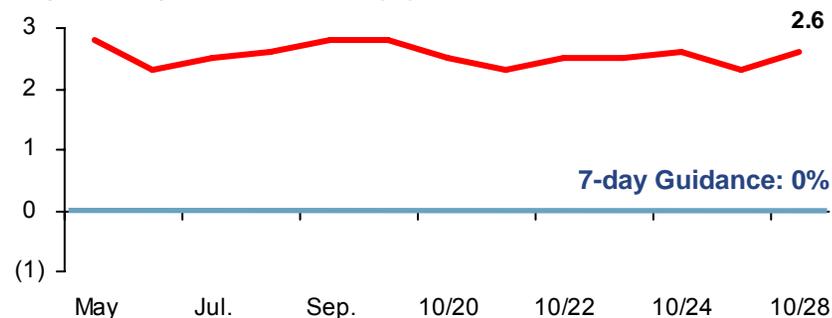
Foreign currency managing/financing - Korean banks  
(US\$ bn, as of Jun.08)

Managing	Amount	Financing	Amount
Forward exchange purchased (off B/S)	65.7	External debt	127.4
Foreign currency loans <sup>1)</sup>	45.5	Residential deposits in foreign currency	19.3
Trade bill discount operation	50.5	Foreign bank branches (swap) <sup>2)</sup>	23.0
Others	40.0	Foreigners' investment in bond <sup>2)</sup> (swap)	32.0
	<b>201.7</b>		<b>201.7</b>

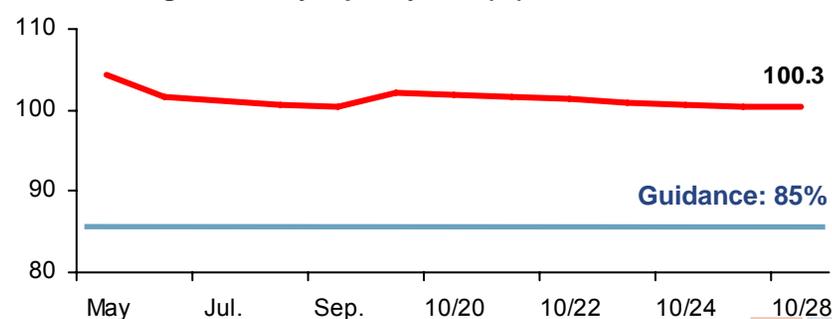
1) NPL : 0.3%    2) Estimates (not included in liabilities)

## High Liquidity Ratio: Low Risk from Duration Mismatch

7-day maturity mismatch ratio (%)



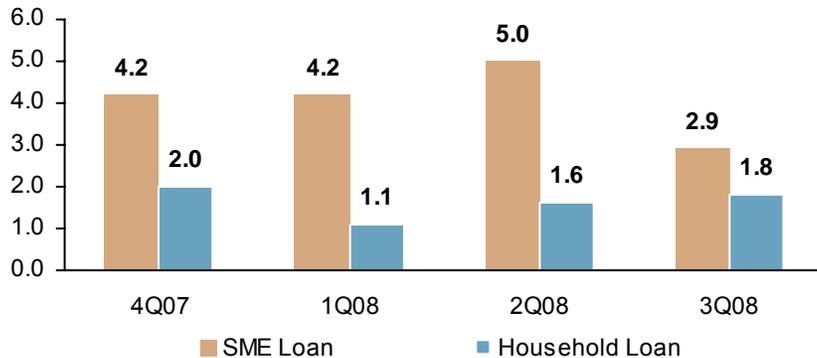
3-month foreign currency liquidity rate (%)



# #2-2 Sound Banking Sector

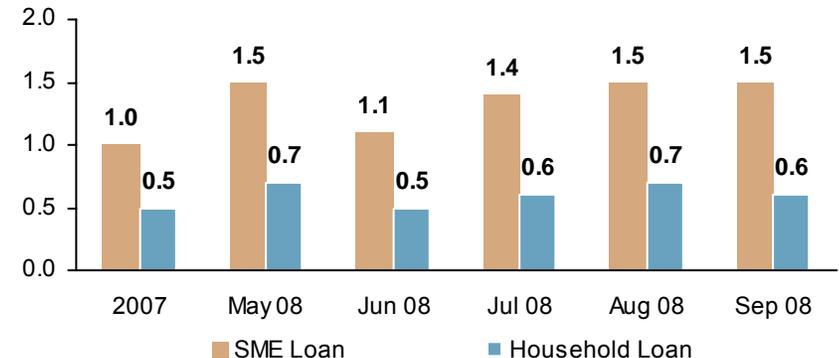
## Moderating Loan Growth

Loan Growth (%)



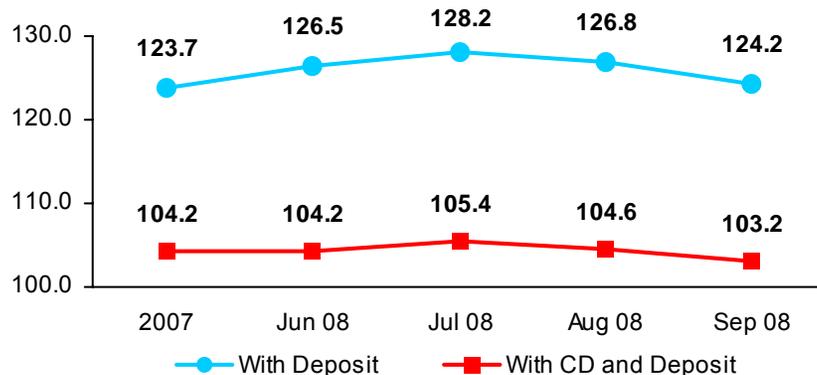
## Low Delinquency Ratio

Delinquency Ratio (%)



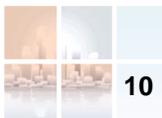
## Moderate Loan-to-Deposit Ratio

Loan-to-Deposit Ratio (%)



## Sufficient Room to Withstand Further Default Risks

- **Sufficient buffer to absorb the impact of further default risk**
  - Coverage ratio is approximately 186%(as of Jun 08)
  - LTV ratio is approximately 47%(as of Jun 08)
- **Well-diversified lending exposure to various sectors**
  - Manufacturing (35.2%), real estate (17.1%), whole/retail sale (14.3%), construction (9.7%)
- **Stringent risk management systems implemented after Asian Financial Crisis**

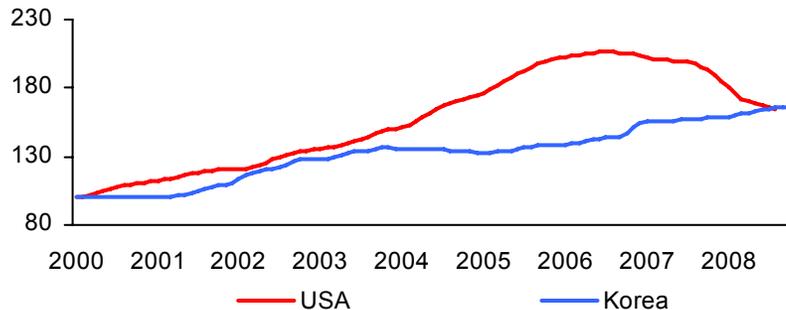


# #3 Real Estate Sector

➔ facts: Historically, Korea's real estate prices have lagged GDP growth, especially when compared to other markets. This balanced growth has been supported by prudent mortgage supervision.

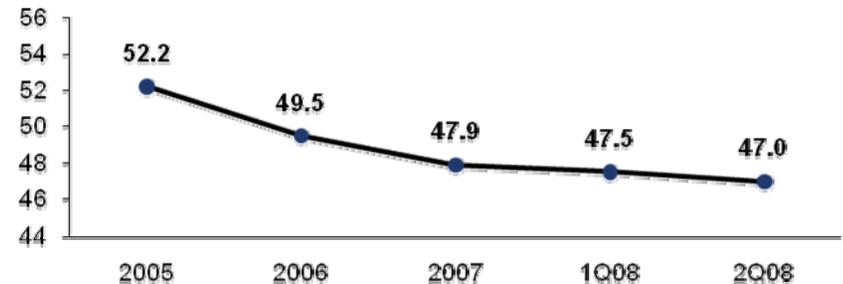
## Real Estate Price Growth

Housing Price Index



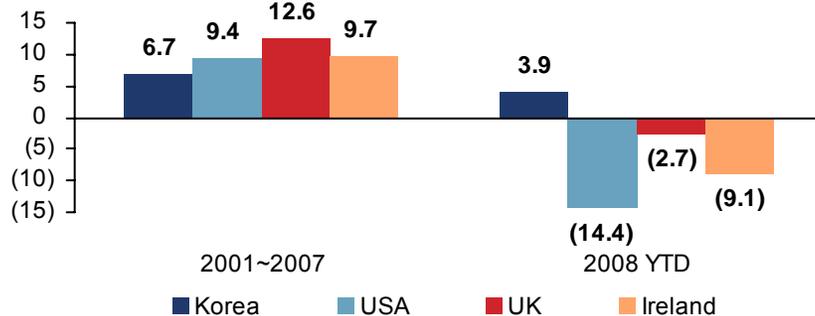
## Mortgage Loan-to-Value Ratio

LTV ratio (%)



## Housing Price Changes

Housing Price Changes (% y-y)



## Prudential Mortgage Regulations

	Korea	U.S.	Hong Kong	Germany	Japan
Mortgage/ GDP	33.4%	72.3%	37.3%	52.4%	36.2%
Regulation System	Direct	Indirect	Direct	Mixed	Indirect
LTV Limit	40~60%	None	60~70%	60%	Indirect
DTI Limit	40%	None	60%	None	None

# **Global Financial Crisis & Economic Slowdown:**

## **Government Response**



# Key Policy Measures

FX Liquidity	Credit Stability	Bank Soundness	Real Economy
<ul style="list-style-type: none"> <li>• Guarantee FX debt issuance (USD 100bn, 10.30)</li> <li>• Supply Dollar liquidity BOK - \$10bn(swap) MOSF - \$25bn(Loan)</li> <li>• BOK - Swap line agreement with the FRB - \$30bn (10.30)</li> </ul>	<p><b>For banks</b></p> <ul style="list-style-type: none"> <li>• Expand purchasing Repo by BOK</li> <li>• Ease the KRW Liquidity Ratio Requirement (10.29)</li> </ul>	<ul style="list-style-type: none"> <li>• Tighter monitoring on banks' asset size &amp; financing structure</li> <li>• Enhance risk management via MOU with financial authorities</li> <li>• Help securitize illiquid assets (e.g. MBS, covered bonds)</li> </ul>	<p><b>Macro - Measures</b></p> <ul style="list-style-type: none"> <li>• Lower the Base interest Rate (5.25→4.00%)</li> <li>• Strong Fiscal stimulus packages(\$26bn)</li> </ul>
<ul style="list-style-type: none"> <li>• Open possibility of expanding Swap Schemes (Bilateral - Multilateral)</li> </ul>	<p><b>For non-banks, bond market</b></p> <ul style="list-style-type: none"> <li>• Provide special liquidity facility for non-bank institutions (10.24)</li> <li>• Broaden eligible collateral for open market operations to bank debentures</li> <li>• Help to stabilize corporate bonds and ABCP Market with P-CBO</li> </ul>	<p>&lt;If necessary&gt;</p> <ul style="list-style-type: none"> <li>• Support recapitalization of financial institutions</li> <li>• Enhance deposit guarantees</li> </ul>	<p><b>Micro - Measures</b></p> <ul style="list-style-type: none"> <li>• Support for Small and Medium Enterprises (10.1) <ul style="list-style-type: none"> <li>- Initiate fast-track programs for differentiating viable companies</li> <li>- BOK - Increase the Aggregate Credit Ceiling Loans (10.23)</li> <li>- Supply KRW liquidity by State owned banks</li> <li>- Expand public guarantee of SMEs loans</li> <li>- KODIT - Help issue P-CBO</li> </ul> </li> <li>• Support for the Construction Industry <ul style="list-style-type: none"> <li>- Purchase unsold assets held by construction companies</li> <li>- Provide credit enhancements to securitize corporate bonds</li> <li>- Provide tax-incentives for housing sector</li> </ul> </li> </ul>

**Thank You**



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