

# **Korea Economy and Financial Markets - Beyond Financial Turmoil**

**February 2009**

**Financial Services Commission**



- Ladies and gentlemen, I would like to welcome all of you and thank you for taking the time to be with us today.
- My presentation today largely consists of three parts.
- Firstly, I will give you a brief overview of Korea's real economy and financial market and move on to talk about newly emerging risk factors in the Korean economy and their effect on the economy.
- Then, I will close by introducing how the Korean government is responding to the economic challenges.

# **1. Current Status of the Korean Economy and Financial Markets**



- Now, let me start with the current status of the Korean economy and financial market.

# Real Economy Snapshot



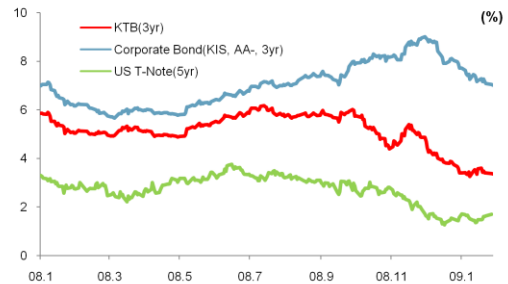
- First of all, let me talk to you about the current status of Korea's real economy.
- As some foreign investors are concerned, it is true that Korea's real economy is fast deteriorating. Domestic demand is slowing down rapidly with 19.8 percent fall in December industrial output from a year earlier as well as 7.0 percent decline in consumer goods sales. Exports in December also fell by 17.9 percent year-on-year (by 29 percent according to the estimation for the period from Jan. 1 to Jan. 20).
- However, let me emphasize that such economic slowdown is not limited to Korea and is witnessed commonly around the world following the global financial crisis. The Korean economy is doing rather well compared to other Asian countries like Hong Kong, Taiwan and Singapore.
- If we compare December industrial output, Korea saw 19.8 percent fall while Taiwan and Singapore suffered 32.4 percent and 13.5 percent decline respectively. Even in terms of export, which is one of the main causes of concern, we see that Taiwan and Singapore have recorded greater fall than Korea with 41.9 percent and 20.8 percent decline respectively.
- Moreover, Korea is maintaining relatively low unemployment rate of 3.3 percent as of last December.

# Financial Market Snapshot

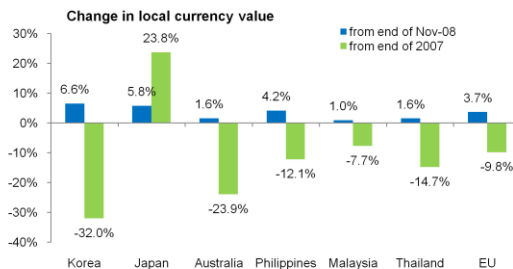
Stock Market



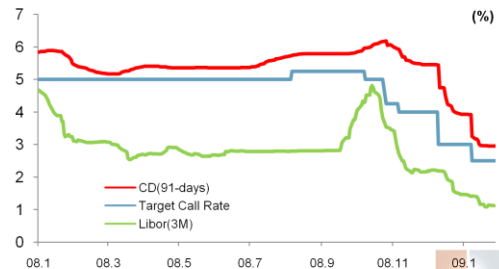
Bond Market



FX Market



Money Market



- However, things are looking better in the financial market. To our relief, the global financial market volatility has eased slightly, improving investor confidence and financial stability in Korea.
- The Korean stock market has recently regained the 1100-level after falling to 930-level last October, when the investor sentiment was seriously hurt by the global crisis. In particular, foreign investors has shifted from net-selling to net-buying, posting a net-buying of 0.85 trillion won in December and 0.73 trillion won in January on local equity markets.
- In case of the bond market, the treasury bond rate is continuously falling due to policy rate cuts, and the corporate bond rates are also stabilizing thanks to the government's proactive measures, including corporate restructuring plans and the creation of the bond market stabilization fund.
- Meanwhile, the rapid weakening of the Korean currency has eased on the back of the foreign investors' net-buying of local stocks as well as the current account surplus. The Korean won depreciated by 32 percent from end of 2007, which was larger than other currencies. But since November 2008, the won strengthened by 6.6 percent, while other currencies posted lower appreciation rate.
- And the credit crunch has been alleviated to some extent as the money market spread has fallen after a sustained upward movement.

## 2. Risks and Challenges



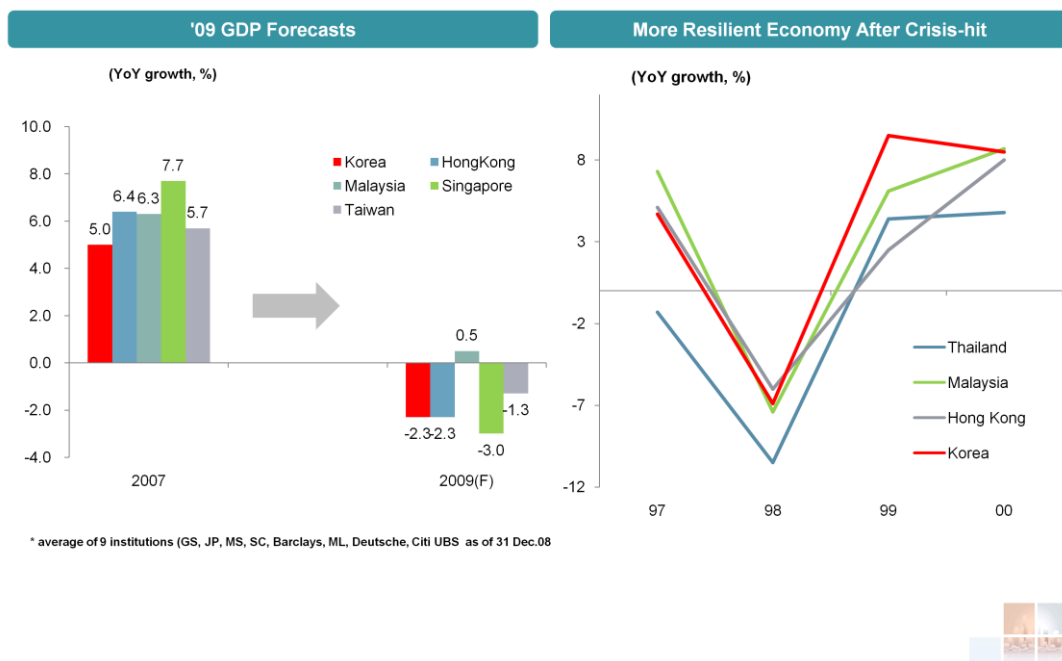
- Now, I will move on to the second part of my presentation and look at some of the risks and challenges facing the Korean economy.

# Risks and Challenges

Risk Factors	Effects
#1 <i>Rapid economic recession</i>	<ul style="list-style-type: none"> <li>Global economic recession ➔ Dramatic decrease in exports &amp; slowdown in domestic consumption ➔ Negative economic growth</li> </ul>
#2 <i>Possibility of private sector defaults</i>	<ul style="list-style-type: none"> <li>Fall in incomes &amp; real estate prices ➔ Household default</li> <li>Economic recession, credit crunch ➔ Corporate defaults ➔ Corporate credit default</li> </ul>
#3 <i>Possible deterioration of banks' financial soundness</i>	<ul style="list-style-type: none"> <li>Non-performing household and corporate loans, loss of principal investment ➔ Deterioration of capital soundness</li> <li>High loan-to-deposit ratio, short term funding ➔ Funding mismatch ➔ Liquidity crisis</li> </ul>
#4 <i>Lack of FX liquidity</i>	<ul style="list-style-type: none"> <li>Volatile FX markets with low transaction volume, difficulty in long-term FX borrowings ➔ External debt default</li> </ul>

- There are four main risk factors in the Korean economy.
- The first concerns the possibility of a rapid deterioration of the domestic economy following a sharp decrease in exports and a slowdown in domestic consumption triggered by the global economic recession.
- The second risk factor is the possibility of private sector defaults including household credit defaults caused by real estate price fall and corporate bankruptcies resulting from economic recession and credit crunch.
- The third factor relates to the growing worry that Korean banks' financial soundness can be deteriorated by non-performing household and corporate loans. In addition, people are increasingly concerned about a currency liquidity problem that can be caused by the mismatch between funding and fund management as indicated by high loan-to-deposit ratio.
- And lastly, the foreign currency liquidity problem and external debt defaults are continuously raised as a potential threat to the economy.

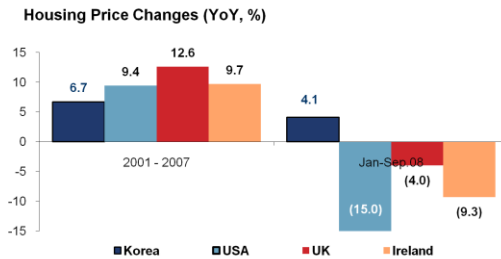
# #1 Rapid Economic Recession ?



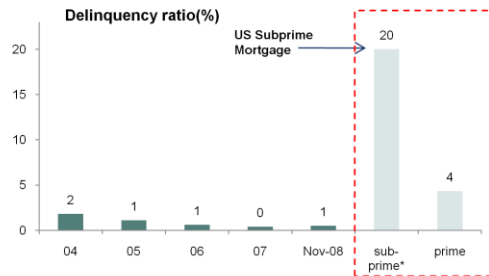
- I will address these one by one, starting with the possibility of a rapid economic recession.
- Recently, some investment banks have forecasted a negative growth of the Korean economy in light of the adverse effect from the global financial crisis. Since the Korean economy largely depends on the global economic conditions, it is hard to predict its future growth. Even IMF and OECD are constantly changing their outlook on the Korean economy. Nevertheless, the situation in Korea is not so bad relative to other Asian countries. Nine investment banks forecast that Korea will grow by an average of -2.3 percent while Hong Kong, Taiwan and Singapore are expected to grow by -2.3 percent, -1.3 percent and -3.0 percent respectively, despite recording growth rates higher than Korea's in 2007.
- Let me also highlight that the Korean economy is highly resilient to crisis. During the Asian financial crisis in 1998, Korea's economic growth rate plummeted to -7 percent like Malaysia and Thailand, but Korea was much faster in overcoming the crisis as it posted 9.5 percent growth in 1999 while Malaysia and Thailand posted 6 percent and 4.4 percent growth respectively.
- So while it is true that the Korean economy is having a difficult time today, the latest growth forecasts and the past experience of the Asian financial crisis tell us that Korea's economic fundamentals are relatively stronger than other Asian countries'.

## #2 Private Sector Default? : 1. Household

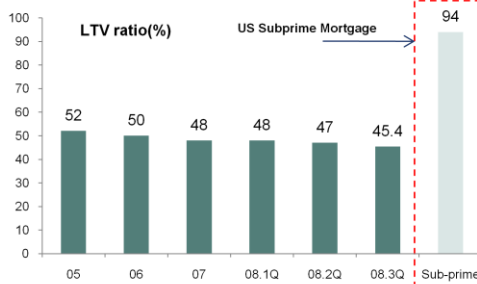
### Stable Housing Price Changes



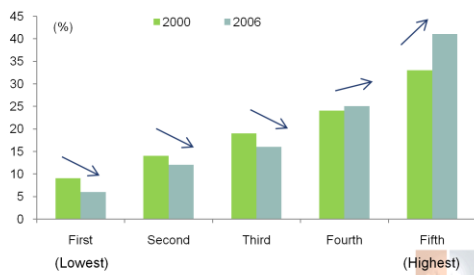
### Delinquency Ratio of Korean Mortgage Loans



### Improving Mortgage Loan-to-Value Ratio



### % of Financial Debt Burden by Household Income



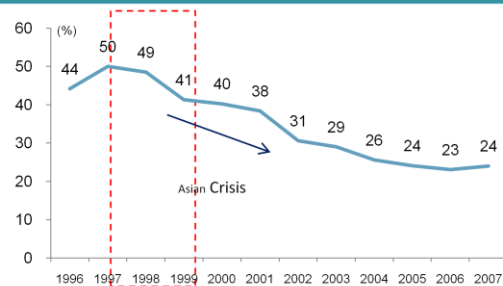
- Next, let me counter the concern about private sector defaults, first focusing on the household sector.
- Nose-diving housing prices and ensuing household loan defaults are causing serious problems in the U.S. and Europe. But in Korea, we do not see any notable housing price bubble or drop in housing prices. First of all, the housing prices in Korea rose by 6.7 percent between 2001 and 2007 while they rose by 9.4 percent in the U.S., by 12.6 percent in the UK and by 9.7 percent in Ireland. The prices have stayed relatively stable in Korea with a price increase of 4.1 percent since 2008 while housing prices fluctuated much in other countries, with 15.0 percent decrease in the U.S., 4.0 percent decrease in the UK and 9.3 percent decline in Ireland.
- Korea's household delinquency ratio is particularly low compared to the U.S. where the current financial crisis originated. While there is 20 percent delinquency on subprime mortgage loans and 4.34 percent on prime mortgage loans in the U.S., Korea's household delinquency ratio is 0.5 percent as of end-November 2008, which is much lower than the U.S. prime loan delinquency ratio
- The loan-to-value (LTV) ratio is 94 percent for the U.S. subprime mortgage loan but is 45.4 percent for Korean mortgage loans. Therefore, we think there will be sufficient buffer against falling housing prices.
- Moreover, since the recent rise in mortgage loans in Korea is mostly attributable to the high-income class, there is smaller chance of defaults.

## #2 Private Sector Default? : 2. Corporate Sector

Improved Interest Coverage Ratio



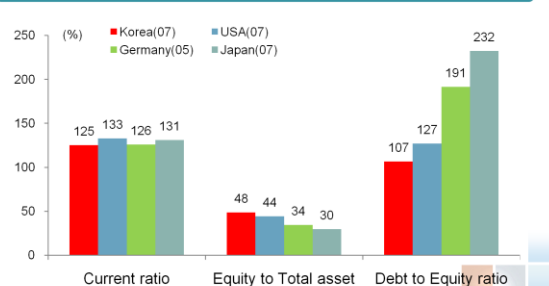
Falling Total Borrowings and Bonds Payable / Total Asset



Decreasing Debt/Equity Ratio



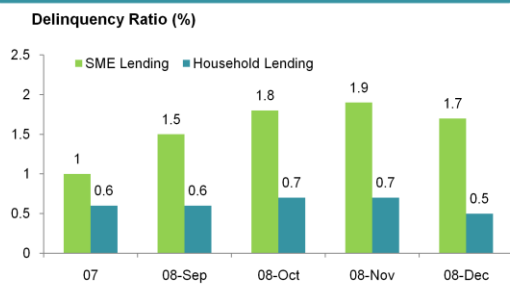
International Comparison of Corporate Financial Structure



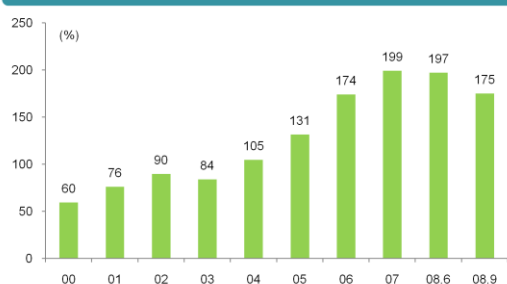
- Now let me address the risk factor of possible corporate sector default.
- Since the Asian financial crisis, Korea's corporate sector has improved greatly in terms of the fiscal structure and profitability. The interest coverage ratio of the entire corporate sector used to be only 64 percent in 1998 but it rose to 405 percent by the end of 2007. (If necessary: The accurate data of 2008 is not available at the moment, but the interest coverage ratio of listed companies as of June 2008 was 1142 percent. So we judge that Korean firms maintain strong business capacity today.)
- The total borrowings and bonds payable to total assets soared to 50 percent in 1997 but continued falling ever since to reach 24 percent by the end of 2007.
- In addition, the debt to equity ratio once hit 425 percent but has fallen to 106 percent by the end of 2007.
- As these indicators illustrate, Korean companies' financial structure has kept improving. Even under the current financial crisis, Korea's corporate sector remains financially healthy relative to advanced countries like the U.S. and Japan. The liquidity ratio at the end of 2007 was 125 percent, similar to 133 percent of the U.S., 126 percent of Germany and 131 percent of Japan. But the equity to total asset ratio of Korea's corporate sector is 48 percent, which is higher than in the U.S.' 44 percent, Germany's 34 percent and Japan's 30 percent. Korea excels in terms of the debt to equity ratio as well. While Korea's corporate sector debt ratio stands at 107 percent, the U.S., Germany and Japan recorded 127 percent, 191 percent and 232 percent corporate debt ratios respectively.
- Although further deterioration of the economy will affect Korean businesses, I am convinced that Korea's corporate sector is stronger than it was during the previous financial crisis and it will absorb the shock better than others.

### #3 Are Korean Banks Unstable?

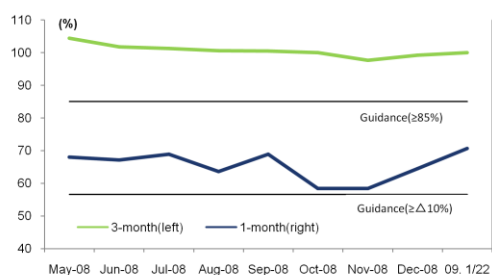
#### Low Delinquency Ratio



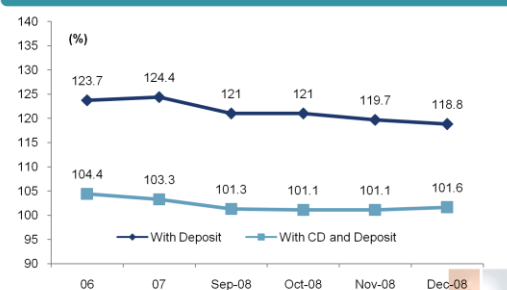
#### High Coverage ratio



#### No Mismatch in FX Asset-Debt



#### Moderate Loan to Deposit Ratio

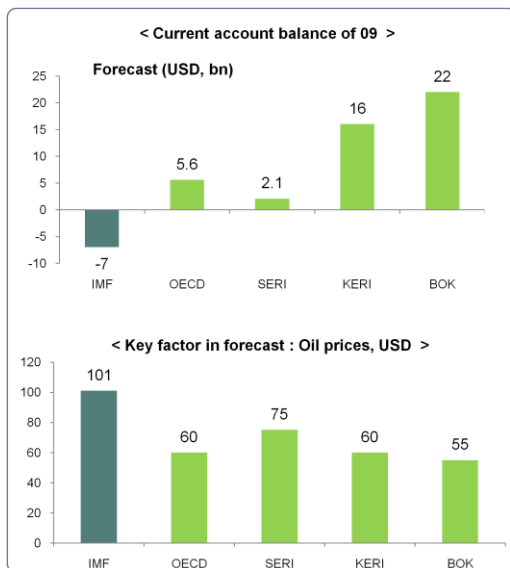


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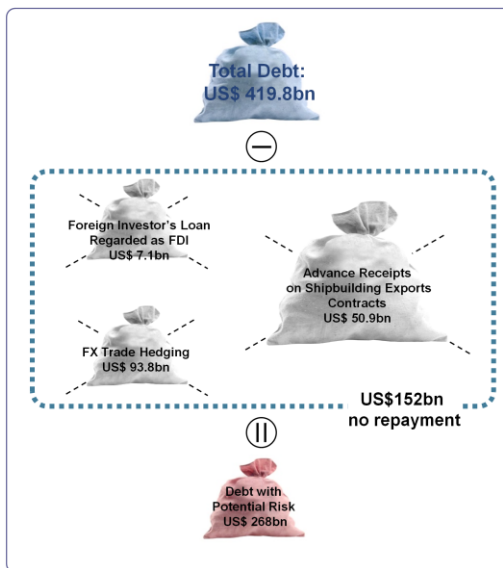
- The third risk factor is related to the soundness of banks. The greatest concern about banks' soundness is the possibility of SME loan and household loan defaults. It is true that the delinquency ratio has been increasing under the present economic circumstances. However, the SME loan delinquency ratio and the household loan delinquency ratio stand at 1.7 percent and 0.5 percent respectively as of last December, which is not a worrisome level.
- The coverage ratio, too, has continuously risen to 175.1 percent at the end of September 2008. I understand there is an increasing concern over growing NPLs and additional provisioning undermining banks' performances. But I can tell you that Korean banks have already acquired good shock absorbing capability based on the high coverage ratio.
- Foreign investors have often raised issues with Korean banks' high loan-to-deposit ratio. The loan-to-deposit ratio is 101.6 percent including CD and 118.8 percent excluding CD, which is relatively high compared to other countries. However, it must be considered that risky assets and derivatives such as CDO and MBS, which are the main culprit behind today's global financial crisis, account for very little in the investment portfolio of Korean banks.

## #4 External Debt Defaults?

### Current Account Forecast



### Substantial portion of external debt is risk-free



- Now, will there be external debt defaults?
- There had been worries about declining foreign currency reserves, but such worries have been eased as the foreign currency reserves started to increase in December last year and surpassed \$ 200 billion again. Another good news is that Korea's current account balance has swung to surplus after sustaining deficit till last September. The current account deficit was mainly caused by rising international oil prices, but now as oil prices are on a downward trend, Korea has begun to record current account surpluses. There are varying outlooks on Korea's current account balance but the overwhelming opinion is that the surpluses are here to stay.
- And, If I breakdown the total debts by their nature, it is estimated that \$152 billion out of 420 billion, or about one third, are virtually at no risk. In other words, they are not subject to any repayment burdens in the future.
- That is because 7 billions are pre-FDI funding, 94 billions have been incurred as a result of FX forwards hedging of pre-contracted future cash flows, and 51 billions are advance receipts for shipbuilding contracts. When we exclude these repayment-free debts, the genuine foreign debt of the Korean economy is about \$268 billion, and far less below the acclaimed \$420 billion level.

### 3. The Korean Government's Response



- So I have talked about the main issues related to some of the risk factors in the Korean economy.
- As I have mentioned, there is no denying that the Korean economy is going through a tough time due to the global financial crisis and economic recession, but it is well equipped to absorb the shock coming from the world-wide crisis.
- And the Korean government, for its part, is making various policy efforts to minimize any harmful effect of the crisis on Korea's financial and economic system.

# Key Frameworks

#1 Economic Recession	#2 Private Sector Defaults	#3 Financial Sector Soundness				
<ul style="list-style-type: none"><li>• 51.3 trn won fiscal stimulus package</li><li>- 16 trn won public expenditure expansion, including investment in infrastructure &amp; social safety net</li><li>- Individual / corporate tax reduction &amp; exemption (35.3 trn won)</li><li>• Liquidity provision (94.7 trn won)</li><li>- 24.7trn won local currency liquidity including purchase of repo &amp; government bond by BOK (16.7 trn)</li><li>- Planned FX liquidity support of \$ 55 billion including competitive swap bid process</li><li>• Aggressive interest rate cut : 5.25% → 2.5%</li></ul>	<table><tr><th>Household</th><th>Corporate</th></tr><tr><td><ul style="list-style-type: none"><li>• Government guarantee of housing price depreciation</li><li>- Guarantee of the shortfall in collateral value caused by housing price decline</li><li>• Extension of mortgage due date and grace period</li><li>• Expansion of debt restructuring &amp; bank loans</li></ul></td><td><ul style="list-style-type: none"><li>• Increase SME Loans by KRW 50 trn.</li><li>• Expansion of corporate loans through policy banks</li><li>- Corporate loan expansion by 14 trn won through 1.4 trn won capital increase in KDB, IBK</li><li>- Guarantee increase by 11.7 trn won with 1.1 trn won additional investment in KODIT, KIBO</li><li>• Indirect support such as purchase of corporate bond through Bond Market Stabilization Fund</li><li>• Systematic restructuring through pre-workout, workout, Coordinated Insolvency Act</li></ul></td></tr></table>	Household	Corporate	<ul style="list-style-type: none"><li>• Government guarantee of housing price depreciation</li><li>- Guarantee of the shortfall in collateral value caused by housing price decline</li><li>• Extension of mortgage due date and grace period</li><li>• Expansion of debt restructuring &amp; bank loans</li></ul>	<ul style="list-style-type: none"><li>• Increase SME Loans by KRW 50 trn.</li><li>• Expansion of corporate loans through policy banks</li><li>- Corporate loan expansion by 14 trn won through 1.4 trn won capital increase in KDB, IBK</li><li>- Guarantee increase by 11.7 trn won with 1.1 trn won additional investment in KODIT, KIBO</li><li>• Indirect support such as purchase of corporate bond through Bond Market Stabilization Fund</li><li>• Systematic restructuring through pre-workout, workout, Coordinated Insolvency Act</li></ul>	<ul style="list-style-type: none"><li>• Self recapitalization efforts<ul style="list-style-type: none"><li>- Raise BIS ratio of entire banking sector from 10.86% in end-Sep. 2008 to 12% by Jan. 2009</li></ul></li><li>• Increase BIS ratio to 14% level through creation of 20 trn won bank recapitalization fund and purchase of redeemable preferred stock and hybrid bond</li><li>• Subscription of NPL worth 4-5 trn won through 400 bn won capital increase in KAMCO<ul style="list-style-type: none"><li>- Subscription of savings banks' non-performing PF loans (1.3 trn won)</li><li>- Currently investigating banks' PF status / Plan to complete non-performing PF loan subscription and write-off by H1 2009</li></ul></li><li>• Prompt subscription and write-off of non-performing household/corporate loans when requested by financial institutions</li></ul>
Household	Corporate					
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- There are three parts to the government's policy efforts.
- The first is the liquidity support policy designed to ease the downward pressure on the economy.
- The second part is aimed at preventing private sector defaults. There are policies for reducing the burden on households as well as policies for providing financial support to the corporate sector and for promoting corporate restructuring.
- And the last part includes recapitalization policies for prevention of financial sector defaults.
- Now, let me go over them one by one.

## Fiscal Stimulus Package & Capacity for Further Stimulus

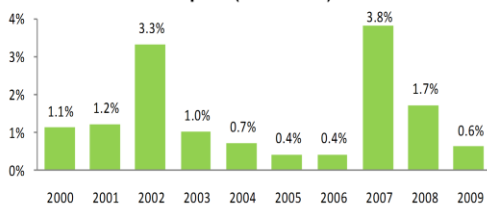
### Fiscal Stimulus Package

Fiscal Stimulus Package : Approximately KRW 51.3trn(5.7% of GDP)

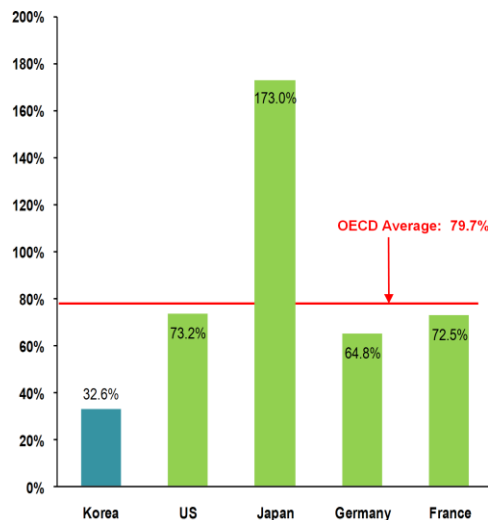
- Expansion of public expenditure for investing in infrastructure and strengthening social safety net (KRW 16trn)
- Reduction in personal income and corporate taxes (KRW 35.3trn)

### Korea Continues to Produce Fiscal Surplus

Government surplus (% of GDP)



### Debt Level Lower Than OECD Peers(2008\*)

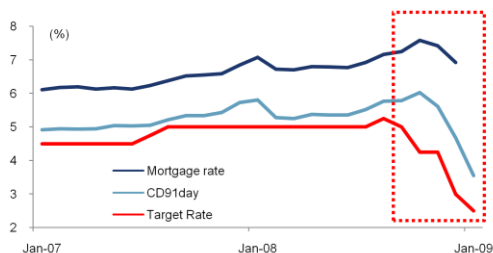


Source: OECD Economic Outlook, Nov 2008

- The Korean government has announced a fiscal stimulus package worth 51.3 trillion won.
- It includes corporate and personal tax cuts amounting to 35.3 trillion won and expansion of public expenditure worth 16 trillion won.
- The size of the public expenditure expansion accounts for 5.7 percent of GDP, which is smaller than that in China but larger than in countries seriously affected by the economic slowdown, such as the Japan and the EU.
- In addition, the Korean government is aggressively pursuing measures to provide liquidity amounting to a total of 90 trillion won, which includes 20 trillion won for local currency liquidity support and 55 billion won for foreign currency liquidity provision
- One thing to be noted is that the Korean government has the capacity for further expansion of expenditure. As you know, the Korean government is recording continued fiscal surpluses. As of September 2008, the fiscal surplus accounted for 2.3 percent of GDP, and we are expecting continued surpluses in 2009 despite possible reduction in size.
- The government also has room for additional interest rate cuts since the policy interest rate is currently higher than other countries at 2.5 percent.
- Moreover, the Korean government's debt-to-GDP ratio is 32.6 percent, which is far below the OECD average of 79.7 percent.

## #2 Measures for Relieving Household Burden

### Policy Rate Cuts (from 5.25% to 2.5%)



### Support for Household Loan / Mortgage Lenders

① Government guarantee of the depreciation in housing prices (Maximum guarantee of KRW 100mil)

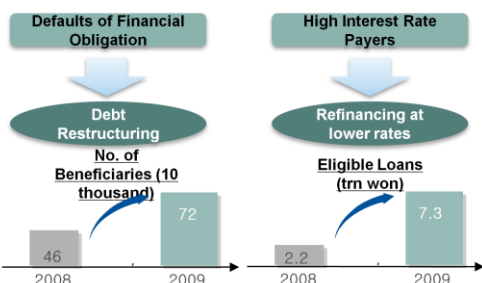


② Extension of mortgage loan due date and grace period

- Due date by 30~35 years max/ Grace period by 5~10 years max

③ Exemption of early repayment fee for lenders wishing to transfer from floating rate to fixed rate

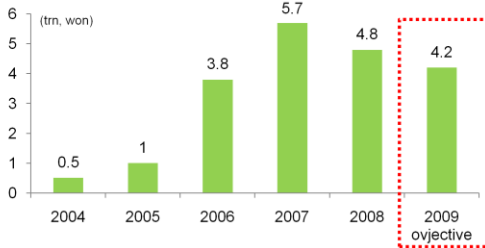
### Expansion of Credit Restoration Fund Programs



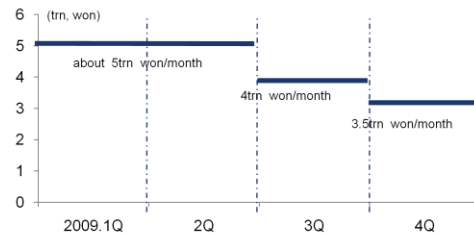
- The Korean government is pursuing measures designed to relieve the burden on households.
- First of all, the government is aggressively lowering the policy rate leading to joint fall in loan rates. This is expected to ease households' debt repayment burden.
- Secondly, the government is considering expansion of credit restoration fund programs as a way to help struggling households. At present, the government is helping defaults of financial obligations with their debt restructuring to lessen the repayment burden and supporting high interest rate payers to transfer to cheaper loans through bank loans.
- Thirdly, the government is pursuing a number of measures to reduce the burden of mortgage repayment, one of which is the government's guarantee of the depreciation in housing prices to the maximum of 100 million won. This guarantee is provided by the Korea Housing Finance Corporation for the loans that exceed the LTV limit due to the declining housing price. In addition, the government is extending the due date and the grace period of loans including mortgage. And if a lender wishes to transfer from a floating rate loan to a fixed rate loan, the government exempts the lender from the early repayment fee as a way to ease the burden of high interest rate.

### #3-1 Enterprises : Corporate Funding Stabilization

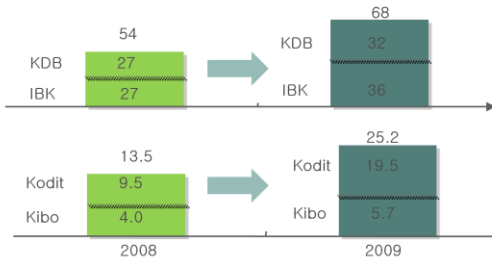
SME Loan of Commercial Banks (monthly average)



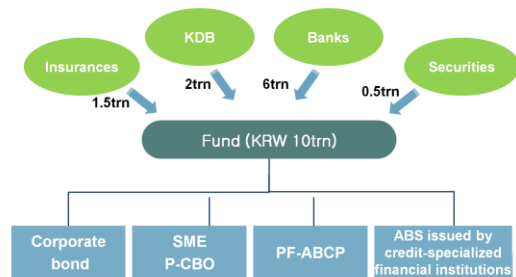
Focus funding in H1 as economic slowdown begins to take toll



Policy Banks & National Guarantors ( KRW 67.5 trn → KRW 93.2 trn )



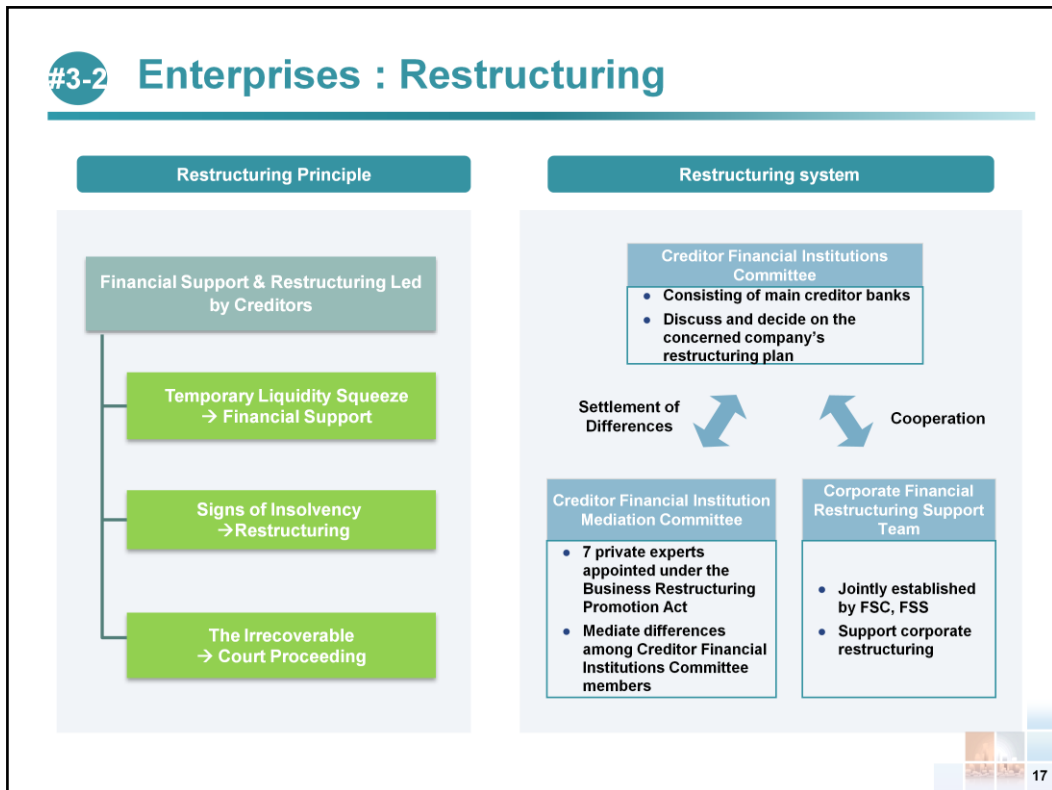
Creation of Bond Market Stabilization Fund (KRW 10 trn)



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- Now, let me talk about the Korean government's financial support to the corporate sector.
- In 2009, the Korean government plans to supply a new funding of 50 trillion won to SMEs. The government will try to front-load the funding in the first half of the year as the economic slowdown forecasted in the first half can take serious toll on the real economic sector.
- There is also a plan to strengthen support through policy banks and national guarantors. The corporate loan will be expanded by a total of 14 trillion won through 3.4 trillion won capital increase in KDB and IBK, and additional 1.1 trillion won will be invested in KODIT and KIBO to increase supply of guarantee by 11.7 trillion won.
- Moreover, the government has created a bond market stabilization fund to increase the demand for corporate bonds, thereby facilitating liquidity provision in the real economic sector. A total of 10 trillion won will be raised for the bond market stabilization fund via investment by financial institutions, which will be spent to purchase corporate bonds, P-CBO and PF ABCP. In case of bonds with low credit ratings, investment will be made through credit enhancement by KODIT and KIBO. The fund has been established on December 17 last year and has raised 5 trillion won thus far, and it will expand investment in bonds reaching their due.

## #3-2 Enterprises : Restructuring



- Next, I will move on the worry about corporate sector defaults. The Korean government has a systematic restructuring scheme not only to prevent risk factors in the corporate sector but also to support healthy companies that can serve as the growth engine for the Korean economy after the crisis.
- There are three parts to the Korean government's restructuring scheme. First, companies in liquidity crunch will be provided with sufficient financial support by the government. Second, companies with signs of insolvency will be put to the restructuring process. Third, nonviable companies will be drastically restructured and liquidated.
- According to the Korean government's principle of pursuing market-friendly restructuring led by creditor financial institutions, the Creditor Financial Institutions Committee, consisting of main creditor banks, is convened to decide on the restructuring plan. And to ensure efficient restructuring, the Creditor Financial Institution Mediation Committee created under the Corporate Restructuring Promotion Act has been improved to grant the role of mediating disputes in the Creditor Financial Institutions Committee, and the Corporate Financial Restructuring Support Team was installed within the FSC. The Corporate Financial Restructuring Support Team has the role of supporting corporate restructurings and coordinating inter-ministerial consultations.

## #3-2 Enterprises : Restructuring Plan Details

### Preemptive restructuring of construction and shipbuilding industries: Restructuring plan for individual companies decided after credit risk evaluation by creditor banks

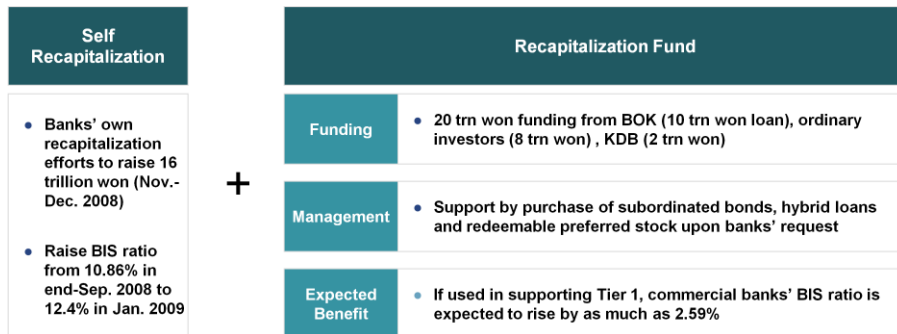
Evaluation Target		<ul style="list-style-type: none"> <li>Construction companies and shipbuilding companies whose credit with main creditor banks exceed 5 billion won <ul style="list-style-type: none"> <li>1<sup>st</sup> evaluation: top 92 construction companies in terms of productivity and 20 exporting SME shipbuilders,</li> </ul> </li> <li>4 grades: Normal (A), Temporary liquidity squeeze (B), Signs of insolvency (C), Insolvent (D)</li> </ul>
	Temporary liquidity squeeze (B)	<ul style="list-style-type: none"> <li>Financial support sufficient to help them overcome the temporary liquidity crunch, self-survival plan for post management</li> </ul>
	Signs of insolvency (C)	<ul style="list-style-type: none"> <li>Financial support sufficient to resolve the structural liquidity problem</li> <li>Dispatch of fund manager, Management normalization MOU, review of management normalization possibility</li> </ul>
	Insolvent (D)	<ul style="list-style-type: none"> <li>No new financial support</li> <li>Legal proceedings (corporate rehabilitation or liquidation) including cancellation of credit repayment grace period.</li> </ul>
Government Response by Grade		

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- Based on the systems and principles mentioned earlier, the Korean government is currently pursuing restructuring of the construction industry and the shipbuilding industry, whose exposure to risks has recently been highlighted.
- First of all, credit risk evaluation will be conducted for all construction companies and shipbuilding companies led by their main creditor banks. And based on the result, restructuring of individual companies will be pursued. (The credit risk evaluation result is scheduled to be released on Jan. 22)
- The first round of credit risk evaluation has been conducted for top 92 construction companies in terms of productivity and 20 exporting SME shipbuilders, and they are to be rated in four grades of Normal (A), Temporary liquidity squeeze (B), Signs of insolvency (C) and Insolvent (D). For B-grade companies, the government is going to provide financial support to help them overcome the liquidity crunch and induce them to prepare self-survival plans as part of post management. For C-grade companies, the government will supply liquidity and make them sign an MOU for management normalization under the Corporate Restructuring Promotion Act. D-grade companies will not receive any new funding from the government and the companies themselves will have to go through the legal proceedings.
- After completing the first evaluation, the second round of evaluation will start from February addressing problems found in the first evaluation.

## #4 Banking Sector Recapitalization

Prevention of defaults caused by economic recession & expansion of real economic support



Possible to raise commercial banks' BIS ratio by more than 4%p

- Lastly, the Korean government has a measure in place to secure soundness of the banking sector.
- Between November and December of last year, Korean banks pursued recapitalization measures of their own and raised 16 trillion won. The government plans to raise the BIS ratio of local banks from 10.86 percent in September last year to 12 percent-level by January this year. (The BIS ratio at the end of 2008 is estimated at upper-11 percent.)
- To add to banks' self-efforts, the government is pursuing recapitalization via creation of a bank recapitalization fund amounting to 20 trillion won. The fund will raise 10 trillion won from the BOK, 8 trillion won from institutional and individual investors and 2 trillion won from KDB, and it will purchase redeemable preferred stocks, hybrid bonds and subordinated bonds to support the banking sector. This is expected to increase banks' BIS ratio by about 2.6 percent.
- Such a measure is designed to counter possible deterioration in local banks' capital position, and it will be effective in preventing the risk of default in Korea's banking sector. The government also has a contingency plan to stabilize the financial system with an injection of public funds when needed, and has accumulated enough financial resources to support this plan.

## #A.1 Background Information

	04	05	06	07	08.1	08.2	08.3	08.4	08.5	08.6	08.7	08.8	08.9	08.10	08.11	08.12
<b>I. GDP</b>																
<b>1. GDP growth rate</b>	4.7	4.2	5.1	5.0	..	..	5.8	..	..	4.8	..	..	3.8	..	..	..
(amount, trn won)	(694.0)	(723.1)	(760.3)	(798.1)	..	..	(205.8)	..	..	(207.5)	..	..	(208.6)	..	..	..
Private consumption	-0.3	3.6	4.5	4.5	..	..	3.4	..	..	2.3	..	..	1.1	..	..	..
CAPEX	3.8	5.7	7.8	7.6	..	..	1.4	..	..	0.7	..	..	4.7	..	..	..
Construction																
Investment	1.1	-0.2	-0.1	1.2	..	..	-1.1	..	..	-1.2	..	..	-1.3	..	..	..
Gross domestic																
investment rate	30.4	30.2	29.9	29.4	..	..	30.5	..	..	31.5	..	..	33.8	..	..	..
Gross savings rate	34.9	32.9	31.3	30.6	..	..	30.4	..	..	31.9	..	..	30.5	..	..	..
<b>2. GNI growth rate</b>	3.9	0.7	2.6	3.9	..	..	1.3	..	..	1.3	..	..	-3.5	..	..	..
(amount, trn won)	(671.0)	(675.7)	(693.3)	(720.7)	..	..	(180.4)	..	..	(182.6)	..	..	(175.9)	..	..	..
<b>II. Real economic indicators</b>																
<b>1. Production growth</b>	10.2	6.3	8.4	6.8	11.2	10.3	10.3	10.7	8.6	6.6	8.7	1.9	6.2	-2.3	-14.1	..
<b>2. Inventory building rate</b>	9.3	5.1	9.3	5.7	4.6	7.9	9.0	12.0	13.1	16.5	14.7	14.5	17.5	17.6	15.9	..
<b>3. Average operation rate</b>																
(mid-period)	80.3	79.5	80.0	80.3	81.8	80.3	81.1	82.2	80.3	80.5	79.7	78.5	77.3	77.0	68.0	..
<b>4. CAPEX increase rate</b>	3.7	5.9	8.9	8.6	-1.8	-1.9	0.9	-1.9	-2.1	4.4	9.9	1.5	7.1	-7.7	-18.0	..
<b>5. Leading indicators 2)</b>	2.3	6.4	4.9	7.0	..	4.3	3.2	2.8	2.3	1.2	0.1	-0.5	-0.8	-1.5	-2.8	..
<b>III. Prices, employment, etc.</b>																
<b>1. Producer price</b>	6.1	2.1	0.9	1.4	4.2	5.1	6.0	7.6	9.0	10.5	12.5	12.3	11.3	10.7	7.8	..
<b>2. Consumer price</b>	3.6	2.8	2.2	2.5	3.9	3.6	3.9	4.1	4.9	5.5	5.9	5.6	5.1	4.8	4.5	..
<b>3. No. of the unemployed</b>																
(end-period, thousand)	860	887	827	783	775	819	810	784	753	764	769	764	722	736	750	..
(Unemployment)	(3.7)	(3.7)	(3.5)	(3.2)	(3.3)	(3.5)	(3.4)	(3.2)	(3.0)	(3.1)	(3.1)	(3.1)	(3.0)	(3.0)	(3.1)	..
<b>IV. Overseas trade (USD bn)</b>																
<b>1. Current account balance</b>	28.2	15.0	5.4	6.0	-2.8	-2.4	-0.1	-1.6	-0.4	1.8	-2.5	-4.7	-1.4	4.8	2.1	..
Goods balance	37.6	32.7	27.9	29.4	-1.1	-0.6	0.5	1.6	0.6	3.5	0.2	-2.8	-0.9	2.6	1.0	..
Services balance	-8.1	-13.7	-19.0	-20.6	-2.1	-2.3	-0.7	-1.0	-1.2	-2.1	-2.5	-2.0	-1.2	-0.1	-0.1	..
Income balance	1.1	-1.6	0.5	0.8	0.8	0.7	0.2	-1.9	0.5	0.8	0.2	0.3	0.8	1.4	0.7	..
Current transfers																
balance	-2.4	-2.5	-4.1	-3.7	-0.3	-0.2	-0.1	-0.3	-0.3	-0.4	-0.5	-0.2	0.0	0.8	0.5	..
<b>2. Exports</b>	253.9	284.4	325.5	371.5	32.3	31.2	36.0	37.9	39.4	37.3	41.0	36.6	37.4	37.2	29.0	27.3
(Rate of increase, %)	-31.0	-12.0	-14.4	-14.1	-14.9	-18.9	-18.5	-26.4	-26.9	-16.4	-35.6	-18.2	-27.7	-8.0	-19.0	-17.4
<b>3. Imports</b>	224.5	261.2	309.4	356.9	36.3	32.6	37.1	38.3	38.7	37.8	43.0	40.4	39.6	36.1	28.9	26.6
(Rate of increase, %)	-25.5	-16.4	-18.4	-15.3	-31.7	-28.4	-26.6	-29.3	-29.6	-32.7	-47.1	-36.4	-45.8	-10.3	-14.9	6.7

## #A.2 Background Information

Unit	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Nov.08	Dec08
<b>External Sector(USD mil)</b>														
External debt	174,231	163,807	152,936	148,119	128,687	141,471	157,394	172,259	187,882	260,061	383,152	425,516		
Short-term	63,757	39,580	43,058	49,657	40,293	48,179	50,805	56,348	65,911	113,748	160,249	189,598		
Long-term	110,473	124,227	109,879	98,462	88,394	93,291	106,589	115,912	121,971	146,312	222,903	235,918		
General Government	11,185	15,938	19,798	19,215	18,280	17,587	11,573	10,389	8,465	10,279	31,749	24,244		
Monetary Authorities	11,519	21,953	12,784	11,250	4,891	4,902	5,299	5,983	7,068	9,609	21,869	28,591		
Banks	91,051	72,506	67,627	61,464	51,300	58,471	67,728	74,491	83,429	136,536	192,880	220,799		
Other Sectors	60,475	53,410	52,728	56,190	54,216	60,510	72,794	81,395	88,920	103,637	136,654	151,881		
External Assets	106,148	129,275	146,095	166,954	163,675	184,253	230,086	288,915	317,070	380,904	420,557	401,552		
Net External Assets	-68,082	-34,532	-6,841	18,835	34,988	42,783	72,691	116,656	129,188	120,843	37,405	-23,964		
<b>Foreign Reserve(USD mil)</b>														
	20405	52041	74055	96198	102821	121413	155352	199066	210391	238956	262224	239672	200506	201223
<b>Fiscal Sector(KRW bn)</b>														
Total Revenue	93,368	96,673	107,923	135,811	144,033	158,712	171,945	178,760	191,446	209,573	243,633	199,440	229,086	
Current Revenue	92,073	95,790	106,537	134,415	142,709	157,226	170,486	177,432	190,165	208,091	241,693	198,031	227,391	
Capital Revenue	1,295	883	1,386	1,396	1,324	1,486	1,460	1,329	1,281	1,482	1,940	1,410	1,695	
Total Expenditure + Net lending	100,327	115,430	120,988	129,284	136,765	136,046	164,303	173,538	187,946	205,928	209,810	176,723	212,144	
Total Expenditure	81,604	90,990	101,236	109,443	126,688	135,610	166,812	172,140	184,922	200,181	202,701			
Net lending	18,723	24,440	19,752	19,841	10,077	436	-2,509	1,398	3,024	5,746	7,107	3,297	5,292	
Balance	-6,959	-18,757	-13,065	6,527	7,268	22,666	7,642	5,222	3,501	3,646	33,824	22,717	16,942	

## #A.3 Background Information

(%)	98	99	00	01	02	03	04	05	06	07	'08.9
<b>BIS Ratio</b>											
Domestic Banks	-	11.7	10.6	11.7	11.3	11.2	12.09	13	12.75	12.28	10.86
Commercial Banks	8.2	10.8	10.5	10.8	10.5	10.5	11.29	12.43	12.31	11.95	10.66
Specialized Banks	-	13.9	10.7	13.6	13.2	12.8	13.73	14.09	13.6	12.91	11.24
<b>Tier1 Ratio</b>											
Domestic Banks	-	-	6.7	7.7	7.2	7	8	9.3	9.1	8.9	8.3
Commercial Banks	4.9	6.8	6.3	6.7	6.3	6.2	7.1	8.7	8.5	8.5	8.2
Specialized Banks	-	-	7.8	9.8	9.3	8.7	9.8	10.4	10.4	9.8	9.5
<b>Coverage Ratio</b>											
Domestic Banks			59.5	76.1	89.6	84	104.5	131.3	173.9	199.1	175.1
Commercial Banks			61.1	74	83.2	82.1	96.4	119.3	159	187.7	170.4
Specialized Banks			54.3	80.3	108.4	89.2	125.7	162.1	216.6	225.3	184.5
<b>NPL</b>											
Domestic Banks	-	12.9	8	3.4	2.3	2.6	1.9	1.2	0.8	0.7	0.8
Commercial Banks	7.4	13.6	8.8	3.3	2.4	2.7	1.9	1.3	0.9	0.7	0.8
Specialized Banks	-	11.2	6.1	3.6	2.1	2.3	1.7	1.1	0.7	0.7	0.8
<b>ROA</b>											
Domestic Banks	-	-0.8	-0.6	0.7	0.6	0.2	0.9	1.26	1.13	1.09	0.7
Commercial Banks	-3.3	-1.3	-0.6	0.8	0.6	0.1	0.9	1.23	1.08	1.07	0.79
Specialized Banks	-	0.3	-0.6	0.5	0.6	0.4	0.8	1.35	1.24	1.14	0.5

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