FINACIAL SERVICES COMMISSION

Press Release

March 6, 2009

FSC VICE CHAIRMAN'S ARTICLE IN THE *WALL STREET JOURNAL* "*THE TRUTH ABOUT KOREA*"

By Rhee Changyoung

SEOUL—South Korea, like all other advanced economies, has inevitably been affected by the financial-market turmoil seeping the globe. Yet the precise nature of these effects on our economy has too often been misunderstood. Some commentators claim that Korea is facing another major financial crisis similar to what it experienced during the Asian financial crisis. This is untrue, and it is important to set the record straight.

The Korean economy is often inaccurately characterized as weak because of its external debt. It is true that Korea's total external debt up for repayment within 2009 is $194 billion. But $39 billion of that amount is considered non-obligatory debt, such as foreign-exchange hedging and advanced payment receipts for ship orders that will clear off the books when the ships are delivered. Korea's net external debt totals $155 billion, or 77% of Korea's foreign reserves of $201.5 billion as of last month. The current roll-over ratio of foreign debt as of February is over 91%. In other words, our banks and corporations are experiencing no problems repaying or refinancing their debts.

Looking at the banking sector alone, out of total external debt of $171.7 billion as of the end of 2008, debt held by branches of foreign banks accounts for $72.3 billion, which does not affect the solvency of domestic banks. The actual amount of external debt held by domestic banks as of the end of 2008 is $99.4 billion—only half of Korea's foreign reserves.

Nonetheless, some market commentators have openly expressed their pessimism. Perhaps such pessimism might be traced back to Korea's 1997 crisis and the fear that it may be repeated. Such a possibility, however, is slim. The Korean economy today is very different from what it was a decade ago.

First, the corporate sector whose debts helped trigger the Asian financial crisis in Korea has been transformed, and is now sound and transparent. The ratio of corporate debt to equity, for instance, was 104% in the third quarter of 2008, compared with the 400% level in the fourth quarter of 1997. The corporate nonperforming loan ratio in 1998 was as high as 6%, but was only 0.7% in the third quarter of 2008. Thanks to the boom of the last few years, especially among leading manufacturers such as Samsung Electronics, Hyundai Motor, and POSCO, Korean Companies are now equipped with stronger cash positions, enabling them to surmount the current global crisis. According to the Korea Stock Exchange, for instance, the cash reserves of 44 subsidiaries of the 10 largest chaebols combined amount to $29.9 billion as of the end of 2008.

Second, in 1996 Korea's current account deficit reached 4.2% of GDP; now, Korea is running a trade surplus of $3.3 billion in February 2009. Major global financial institution forecasts of Korea's current account surplus for 2009 range from $11.7 billion (Credit Suisse) to $48 billion (Barclays Capital). The flip side of this trade surplus is a steady stream of capital inflows. It is hard to find in economic history any country that has ever become insolvent while its current account balance was in surplus.

Third, investors can take comfort from the fact that banks are also much better capitalized than they were 10 years ago. Their average BIS (Bank for International Settlements) ratio has jumped to 12.2% from 7.0%, while as noted above, the nonperforming loan ratio is significantly healthier. Improved soundness of financial institutions mainly traces to the lessons Korea has learned from the 1997 crisis about the importance of strong financial supervision as a way to ensure the integrity of financial markets. Consider the loan-to-value ratio, the value of a mortgage loan divided by the value of the underlying collateral. This is a general measure of indebtedness. In Korea that ratio currently ranges from 40% to 60%, which is far lower than that in the U.S., which runs between 90% and 100%. This reflects Korea's healthier household lending market.

Fully aware of potential risks lingering around it, the Korean government is staying vigilant on everyday movements in the world economy while taking pre-emptive action to reassure the market of the government's commitment to cushioning the impact of the global crisis on its domestic markets. Korea launched a bank recapitalization fund of 20 trillion won ($13.3 BILLION) last month to replenish local banks with enough capital so that they can carry on supplying liquidity to small businesses that are viable but experiencing short-term liquidity shortages.

It is true that the global financial climate is rough and even threatening at times. Yet, it is equally true that the fundamentals of the Korean economy are strong and that its companies are globally competitive. In particular, Korea's sound fiscal positions, compared to other exporting countries, can buttress its economy against waning exports while boosting strong domestic consumption. Media distortions about the world's 13th largest economy must not distract from these facts.

Mr. Rhee is vice chairman of South Korea's Financial Services Commission.