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## **Press Release**

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November 24, 2010

### **RESULTS OF EMERGENCY ECONOMIC MEETING AFTER NORTH KOREA'S ARTILLERY FIRING**

Vice Minister of Strategy and Finance Yim Jong-yong called for an emergency economic meeting\* on Wednesday, November 24, a day after North Korea's attack on Yeonpyeong Island to discuss the attack's impact on domestic and overseas financial markets and policy responses to future developments.

\*attendees: Vice Minister of Strategy and Finance (chair), Vice Minister of Knowledge Economy, Vice Chairman of Fair Trade Commission, Vice Chairman of Financial Services Commission, Senior Deputy Governor of BOK, Senior Deputy Governor of Financial Supervisory Service

#### **Market reactions**

As the news of North Korea's artillery firing was first reported at around 2:58 pm, right before the market close at 3:00 pm, it did not have a substantial and immediate impact on the stock market. However, after-hour markets including the futures market rattled, showing growing volatility.

Right after the outbreak of the incident, Korea's CDS spreads and Non-Deliverable Forward (NDF) rates sharply soared, but over time there has been no further rise.

#### **Potential impact**

The attack's impact on financial markets and the real economy may vary with future developments of the incident; however, as long as the situation does not escalate further, the impact is expected to remain temporary as it did when faced with similar geopolitical risks.

Considering Korea's solid economic recovery, fiscal soundness, current account surplus, and large foreign exchange reserves, to which foreign investors give high credibility, the Korean economy has sufficient capacity to absorb external shocks.

Market observers and credit rating agencies assess that the incident would not significantly affect Korea's sovereign credit ratings.



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- \*Moody's said that North Korea's attack would not negatively affect Korea's sovereign credit rating.
- \*Fitch maintained Korea's sovereign rating at A + with the "stable" outlook.
- \*S&P said that the incident would not undermine foreign investment in Korea and other indices affecting Korea's sovereign rating, and geopolitical risks such as North Korea's artillery firing were already reflected into the current rating.

### **Policy responses to come**

The government will closely monitor the attack's impact on the Korean economy and, if needed, come up with policy measures to stabilize the markets.

1. We will closely watch the financial and foreign exchange markets and take actions in a timely manner to help the markets braced for volatility. If excessive anxieties in the financial and foreign exchange markets trigger herd behavior among market participants, the government and the Bank of Korea will take proactive measures to stabilize the markets. If needed, we will supply ample liquidity in local and foreign currencies to keep the markets stable.
  2. The government will monitor prices, supply, and demand of daily necessities to ensure that the incident would not have much impact on low-income households. Market disrupting behaviors such as hoarding and price manipulation will be strictly sanctioned by the Fair Trade Commission.
  3. The Ministry of Knowledge Economy will closely work with the Korea Trade-Investment Promotion Agency (KOTRA) and the Korea International Trade Association (KITA) to monitor situations in exports and imports to make sure that our international trade and supply of commodities continue to run smoothly.
  4. The Ministry of Strategy and Finance will provide credit rating agencies with timely and accurate information on future developments of the incident and the state of the Korean economy, so the incident would not negatively affect Korea's sovereign rating.
  5. In response to possible escalation of the situation, we will review our contingency plan. We will set up a hotline between financial and foreign exchange authorities and commercial banks in order to early detect potential risks in banks' foreign exchange liquidity.
- ※ Furthermore, a Joint Countermeasure Task Force will be initiated to persistently monitor changes and movements in five key sectors: international financial sector; domestic financial sector; exports; natural resources; and price of goods.



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The task force will be comprised of the Ministry of Strategy and Finance, the Ministry of Knowledge Economy, the Bank of Korea, the Fair Trade Commission, the Financial Services Commission and the Financial Supervisory Service

Also, to promote stability in the financial sector, a 24-hour monitoring system has been in operation since yesterday (November 23) run by the Ministry of Strategy and Finance, the Korea Center for International Finance, the Bank of Korea, the Financial Services Commission and the Financial Supervisory Service, not only to monitor the situation, but ready to react pre-emptively on any changes in the market.

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