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## Press Release

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February 28, 2013

### FSC/FSS JOINT MEETING ON DOMESTIC AND OVERSEAS FINANCIAL MARKET SITUATIONS

The FSC Vice Chairman Choo Kyungho convened an FSC/FSS joint meeting on February 28, 2013 to review recent developments of current global issues such as Italy's election and the US sequester, analyze the impact on financial markets home and abroad and discuss policy responses in the future.

#### OVERSEAS FINANCIAL MARKET

Global financial markets face a growing political risk which came from Italy's political uncertainty and the impending automatic budget cuts in the US known as the sequester.

The result of Italian election this week<sup>1</sup> heightened concerns about anti-austerity sentiment across the euro-zone countries, increasing uncertainty surrounding the euro-zone crisis.

Global stock markets fell right after Italy's election but quickly rebounded. However, there remains a possibility that the country's fiscal condition would worsen and political tensions with other euro-zone countries would heighten depending on future developments in Italy's politics.

The Republican-Democratic confrontation surrounding the US sequester is also a destabilizing factor to global financial markets. If both parties fail to reach an agreement and sequester begins on March 1 as scheduled, the US would suffer a recession of the real economy.

#### DOMESTIC FINANCIAL MARKET

The KOSPI fell on February 26 with the result of Italy's election but quickly rebounded on February 27.<sup>2</sup> The KRW/USD exchange rate remained stable.<sup>3</sup>

Despite the outflow of foreign funds since February 26, February ends with a net inflow of

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<sup>1</sup> The center-left coalition which pledged to maintain the current austerity plan won a majority in parliament's lower house but lost to the center-right party of anti-austerity in the Senate.

<sup>2</sup> KOSPI : 1,962 (end-January 2013), 2,019 (Feb.22), 2,010 (Feb.25), 2,000 (Feb.26), 2,004 (Feb.27)

<sup>3</sup> KRW/USD : 1,089 (end-January 2013), 1,085 (Feb.22), 1,086 (Feb.25), 1,088 (Feb. 26), 1,084 (Feb.27)



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foreign capital.<sup>4</sup> Foreign borrowing conditions for domestic banks also remained sound.

However, there is a possibility that uncertainty in overseas and domestic financial markets grows depending on how the situations in Italy and the US unfolds in the future.

We also need to remain cautious as domestic financial market is exposed to the North Korea-related risk and expanded volatility in foreign exchange markets triggered by major economies' monetary easing.

### **POLICY RESPONSES IN THE FUTURE**

The FSC/FSS will thoroughly monitor domestic and overseas financial market situations and come up with timely measures to stabilize market.

We will also ensure the access of SMEs and low-income households to financial markets in response to possibility of prolonged economic recession.

The FSC/FSS will hold a meeting to examine financial market conditions on a frequent basis in order to deal with destabilizing factors in a timely manner.

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<sup>4</sup> - Foreigners' net purchase of domestic stocks (unit: trillion won) : -1.9 (January 2013), +1.7 (February), -15.5 billion won (Feb.26), -3.5 billion won (Feb.27)  
- Foreigners' net investment in securities (unit: trillion won) : -0.9 (January 2013), +3.2 (February), -107 billion won (Feb.26), +22.5 billion won (Feb.27)