
FSC HELD MARKET MONITORING MEETING ON RESULTS OF MSCI 2017 MARKET CLASSIFICATION REVIEW

FSC Vice Chairman Jeong Eun-bo held a meeting on June 21 with officials from relevant agencies to discuss the impact of the MSCI's 2017 Market Classification Review and the government's responses.

INCLUSION OF CHINA A-SHARES INTO MSCI EMERGING MARKET INDEX

In its annual market review, MSCI decided to include China A-shares, 222 large-cap stocks of Chinese companies listed in either Shanghai or Shenzhen, into the MSCI Emerging Market (EM) Index.

IMPACT ON KOREA'S FINANCIAL MARKET

As the inclusion of China A-shares increases China's weighting in the MSCI Emerging Market Index, Korea's weight in the same index is expected to decrease by 0.23 %p from its current 15.5%. Given the amount of funds tracking MSCI EM Index, which ranges between KRW 250 trillion (USD 230 billion) and KRW 1,900 trillion (USD 1.8 trillion), Korea may experience possible outflow of KRW 600 billion to KRW 4.3 trillion from the equity market.

The FSC, however, sees MSCI's decision will have a limited impact on the Korean stock market for the following reasons:

- The change will be actually reflected in the MSCI EM Index in a year, from June 2018.
- The amount of global funds investing in emerging markets continues to increase, recording a net inflow of USD 18.1 billion into emerging markets from April to May 2017.
- Given that the Korean stock market attracted a net foreign capital inflow of KRW 9 trillion in the first five months this year alone, the amount of possible outflows (max. KRW 4.3 trillion) is not so significant.

GOVERNMENT'S RESPONSES

The government will keep monitoring the impact of the MSCI's decision to include China A-shares into its emerging market index on the Korean equity market.

We will also continue our policy efforts to improve global competitiveness and attractiveness of our capital markets, and consultation with MSCI in regard with the inclusion of Korea on the list for potential reclassification to the MSCI Developed Market Index.

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