



# **The Truth of Korean Economy and Future Implication**

**May 11, 2010**

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Vice Chairman**

**Financial Services Commission  
Republic of Korea**

# Contents

- I . Current Economy Conditions
- II . Overcoming the Crisis: Key Drivers
- III . Major Issues of Korean Financial Market
- IV . Financial Policy Direction
- V . Korea's Global Leadership



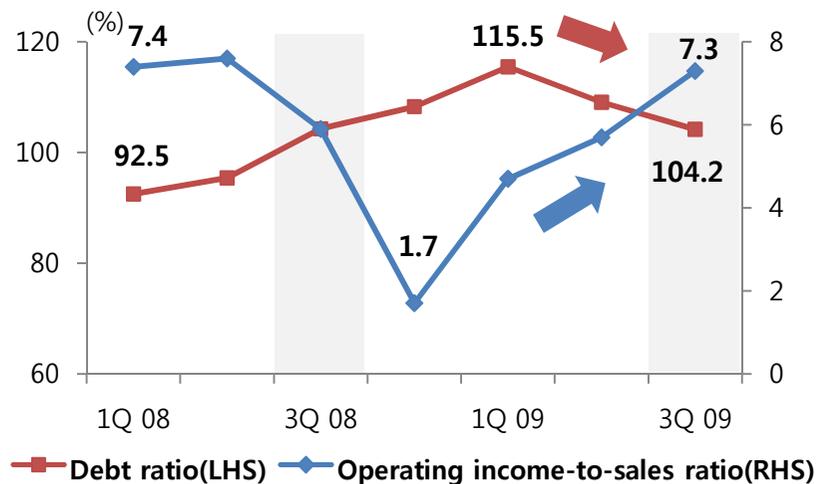
# 1. Real Economy

- **GDP growth**
  - 2009 : 0.2% (higher than other countries)
  - 2010 1Q : 7.8%(YoY), 2010 expected : 5%
- **Steady increase in Domestic Consumption / Investment / Production / Export**
- **Stronger revenue and operating income of major companies**
  - Recorded good performance in 1Q 2010

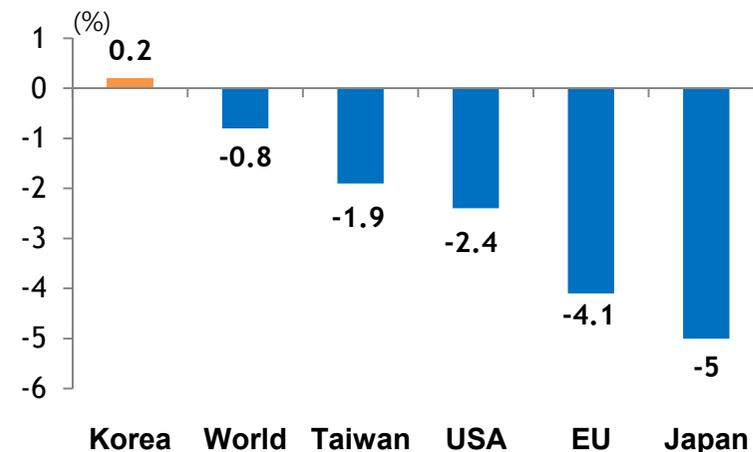
## GDP Growth after Crisis



## Profitability & Financial Soundness of Businesses



## 2009 GDP Growth Rate per Region

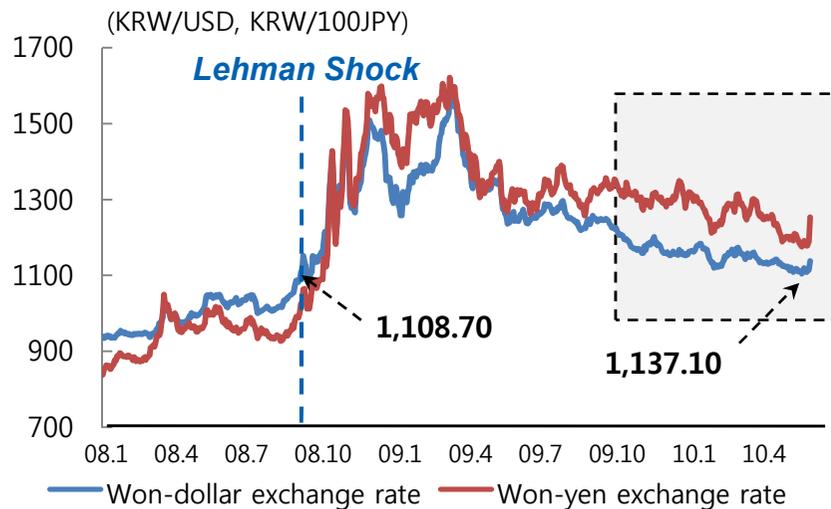


# 2. Financial Market

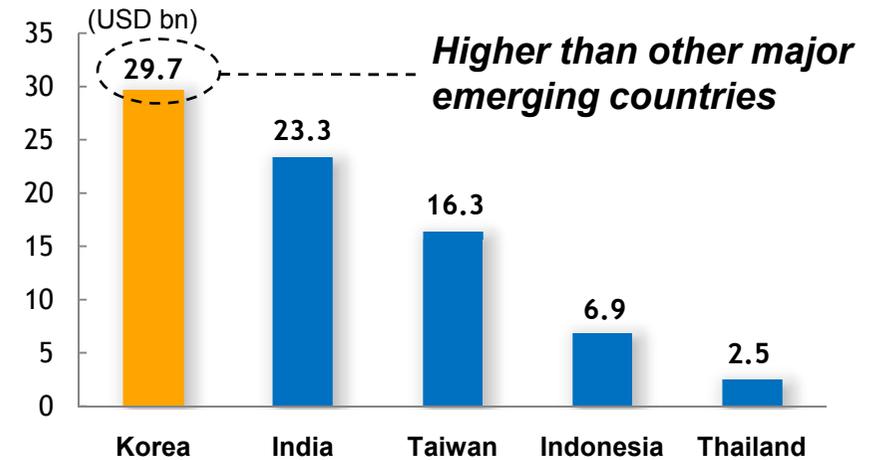
## Stock Index Movements (KOSPI)



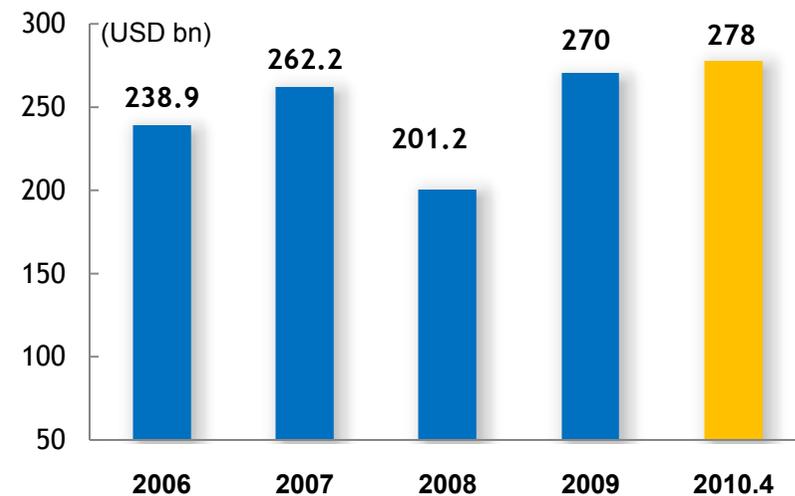
## Foreign Exchange Rate



## Foreign Net Purchase in Stock Market (Jan.09~Mar.10)



## Foreign Exchange Reserve



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# 1. Strong Fundamentals

Korea's financial condition has improved vastly over the past ten years and well-prepared to manage the recent crisis.

	Asian Financial Crisis in 1997 - 1998	Global Financial Crisis in 2008 - 2009
<b>Causes</b>	Internal factors such as corporate bankruptcy	External factors
<b>Foreign Exchange</b>	Foreign Currency Reserves US\$ 8.9bn	US\$ 270.0bn <sup>1</sup>
	ST External Debt / FX Reserves 717%	55.6% <sup>1</sup>
	Total External Debt / FX Reserves 1,957%	148.9% <sup>1</sup>
<b>Banks</b>	Bank NPL Ratio 6.0%	1.24% <sup>1</sup>
	BIS Ratio 7.0%	14.36% <sup>1</sup>
<b>Corporates</b>	Corporate Debt Ratio 424.6%	100.8% <sup>1</sup>
	Corporate Interest Coverage Ratio 115.0%	377.7% <sup>1</sup>

<sup>1</sup> as of December 2009

## 2. Effective Policy Response (1)

### Initial Response after the Lehman shock

#### FX Market Stabilization

- Payment guarantee of foreign currency borrowings by domestic banks: \$100 bn
- Currency swap lines with U.S., Japan, and China: \$30 bn each / \$90 bn in total
- \$55 bn foreign liquidity provision by the BOK and the government

### Medium-term Responses

#### Fiscal Stimulus Package

- Won liquidity provision: 23.3 tn won (23.3 bn dollars<sup>1</sup>)
- Total Stimulus package: 3.6% of GDP in 2009

#### Corporate Sector Liquidity Provision

- Extension of SME loans and guarantees due 2009
- Creation of Bond Market Stabilization Fund (USD 10 bn)

#### Enhancing Banks' Soundness

- Launching of Bank Recapitalization Fund (USD 20 bn)
- Purchase of banks' impaired assets through Restructuring Fund by KAMCO (USD 40 bn)

#### Corporate Restructuring

- Creditor financial institution-led restructuring
- Market-based restructuring

#### Social Safety Net

- Financial support through Microcredit (Miso Foundation)
  - Planning to supply 2tn won(USD 2bn) for the next 10 years
- Credit recovery support for low-income households through debt restructuring and refinancing at lower rates
  - Planning to supply 10tn won(USD 10bn) in the next 5 years through guaranteeing small amount loan

<sup>1</sup> KRW 1000 = USD 1

## 2. Effective Policy Response (2)

### Key Success Factors

- Prompt and Preemptive Response
- Prudent Management of Financial Sector Soundness
- Lessons and Experience from 1997 Asian Financial Crisis
- Robust Korean Government's Fiscal Fundamentals

### Views on Korea



*"...Korea has achieved one of the earliest and strongest recoveries in the OECD area..." (Nov. 09)*

*"...The Korean economy is responding rapidly to the improving global economic environment, and the gov't has put in place supportive policy measures which should help sustain economic growth over time..." (Mar. 10)*



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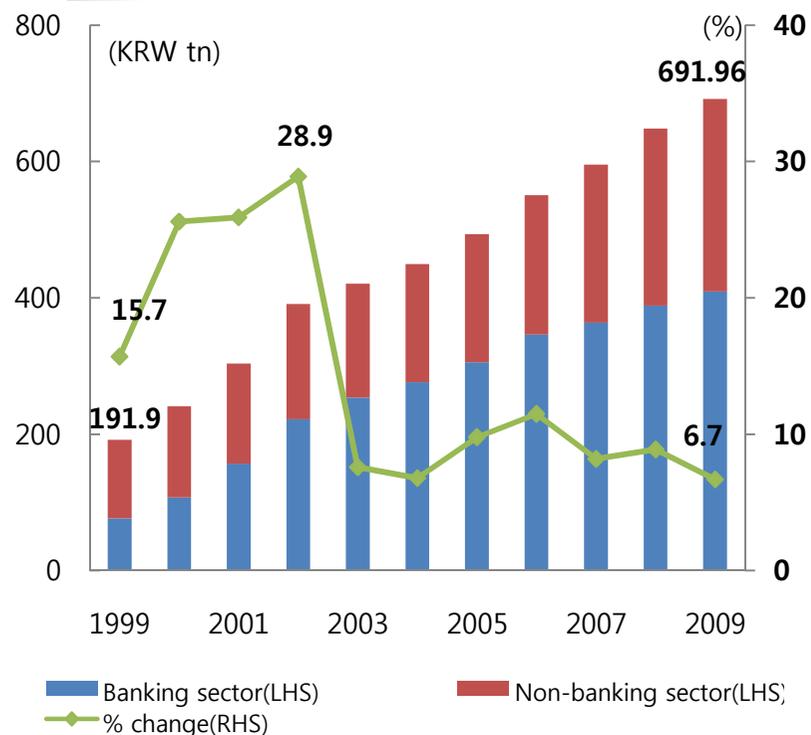


# 1. Household Debt (1)

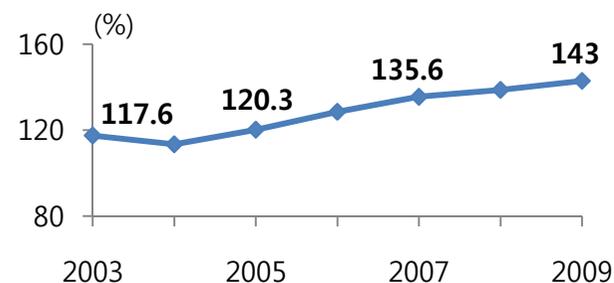
## Current Status of Household Debt

- Household loans have surged since the Asian financial crisis
- Mostly residential mortgage loans

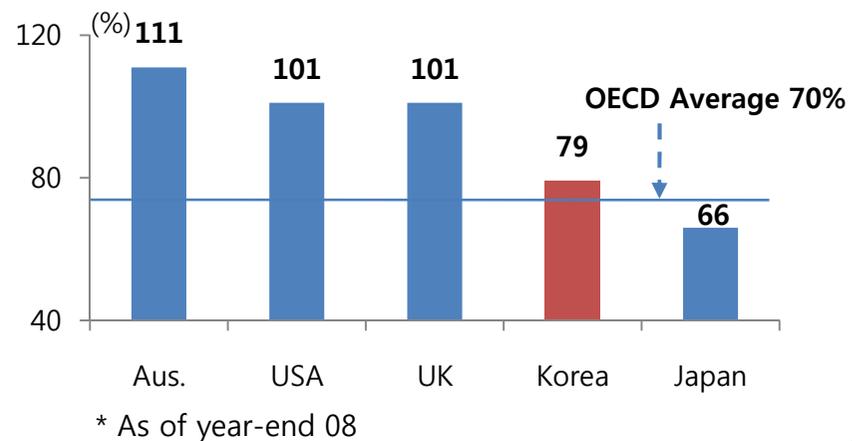
### Household Loans



### Household Debt to Disposable Income



### Household Debt to GDP

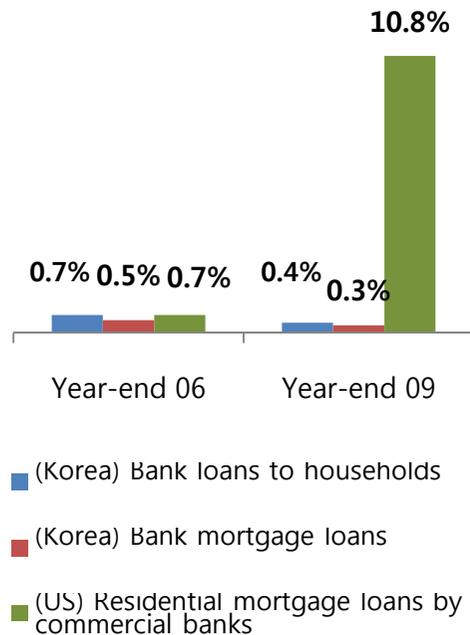


# 1. Household Debt (2)

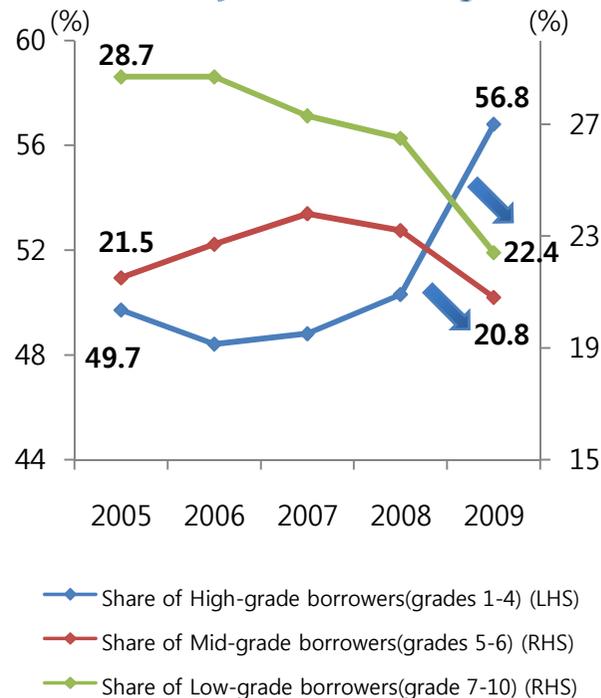
## Manageable Risk Level

- Delinquency and NPL ratio is less than 1%, household loans have risen mostly among strong credit holders and high-income earners
- Low loan-to-value ratios, strong capability of financial institutions to absorb shocks
- Policy Response to Household Debt : Continuing LTV-DTI regulation, introducing loan-to-deposit ratio, closely monitoring household debt so as not to be as burden

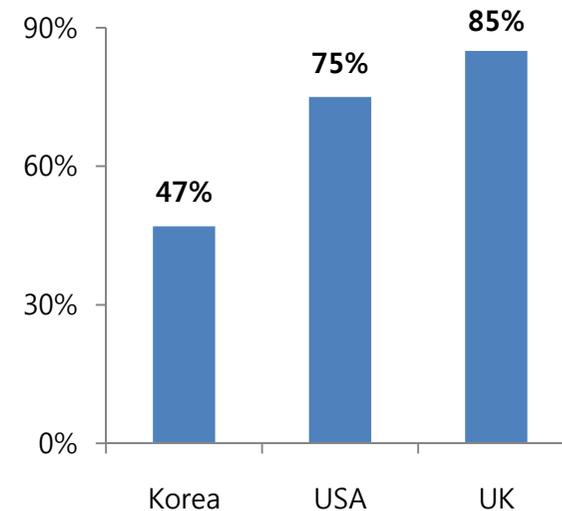
### Household Loan Delinquency



### Shares in Household Loans by Credit Rating



### LTV Ratio

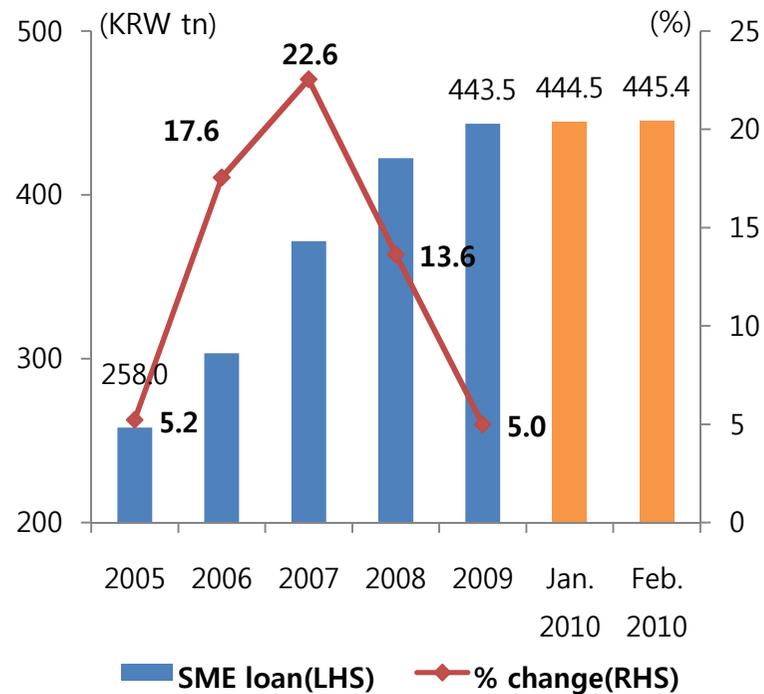


• As of Jul-09 (As of end 07 for UK)

## 2. SME Debt (1)

### SME loan

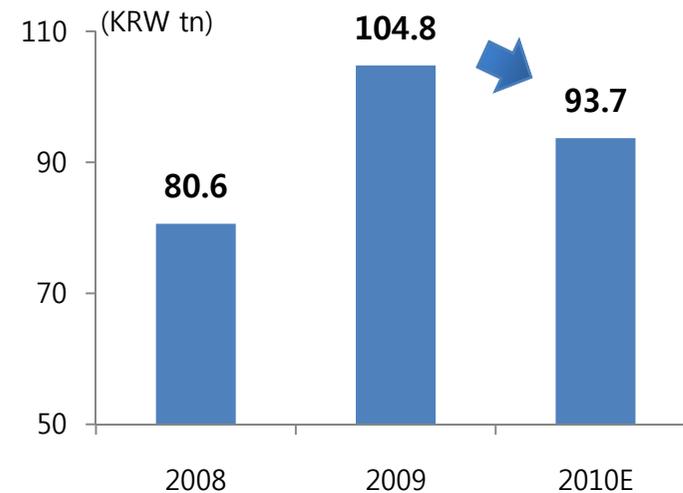
- SME loan has increased until 2009
- However, SME loan growth rate has declined



### SME Loan Guarantee

- Phasing out credit guarantee to SMEs, temporarily extended during the crisis
- Lowering SME loan guarantee ratio - 95%(2009) → 85%(2Q 2010)

#### SME Loan Guarantee

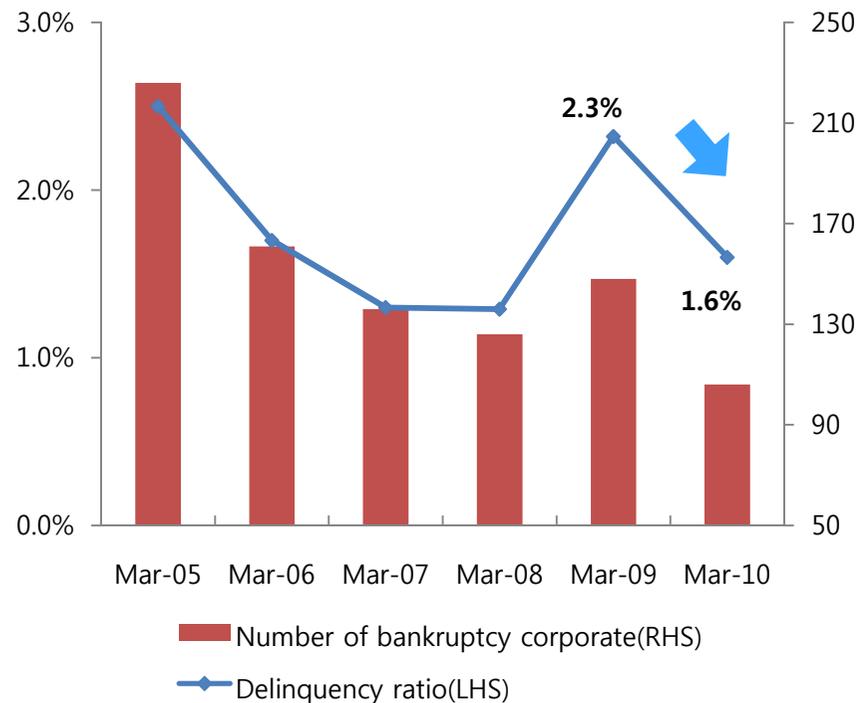


## 2. SME Debt (2)

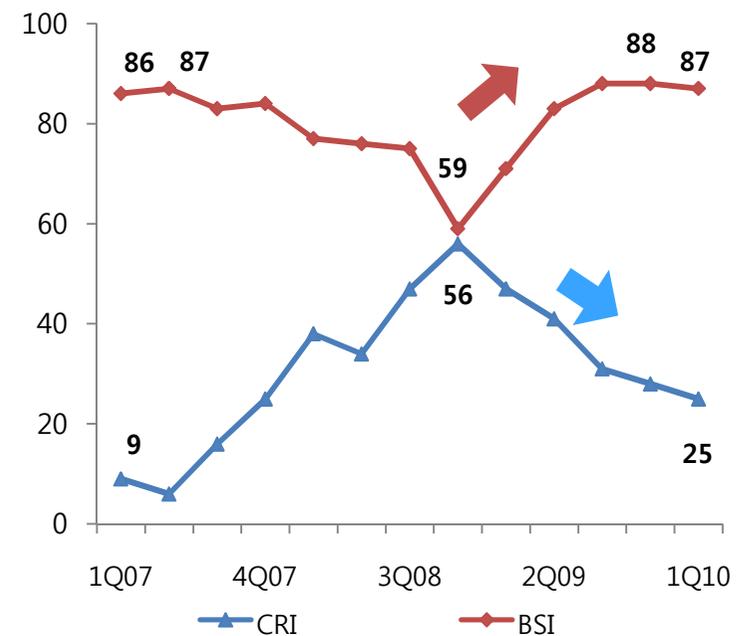
### Manageable levels

- Normal SME loan delinquency and default levels, stable financial status
- Business indicators improving, while marginal firms account for around 2% of companies nearing loan maturity
- Closely following developments on SME loans and corporate financing market per business sector

### SME Loan Delinquency



### Credit Risk Index & BSI

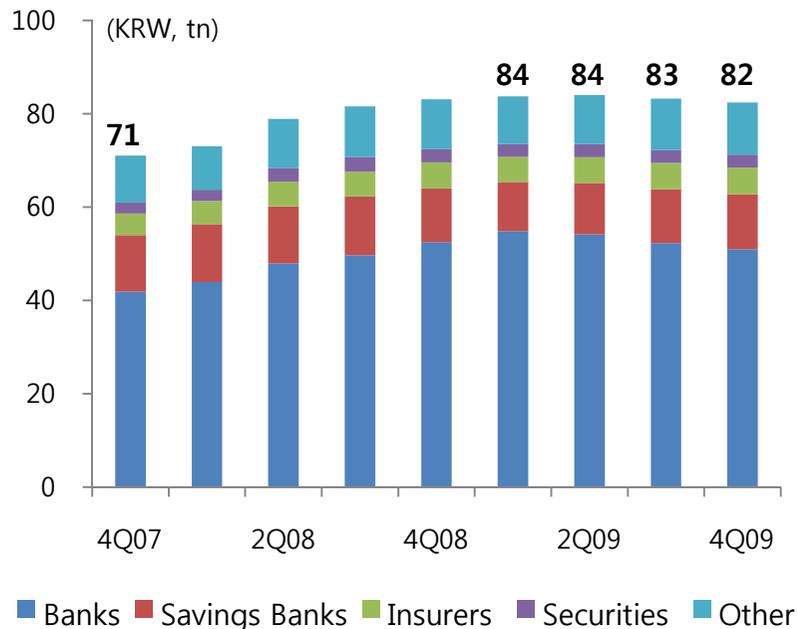


# 3. PF Loans (1)

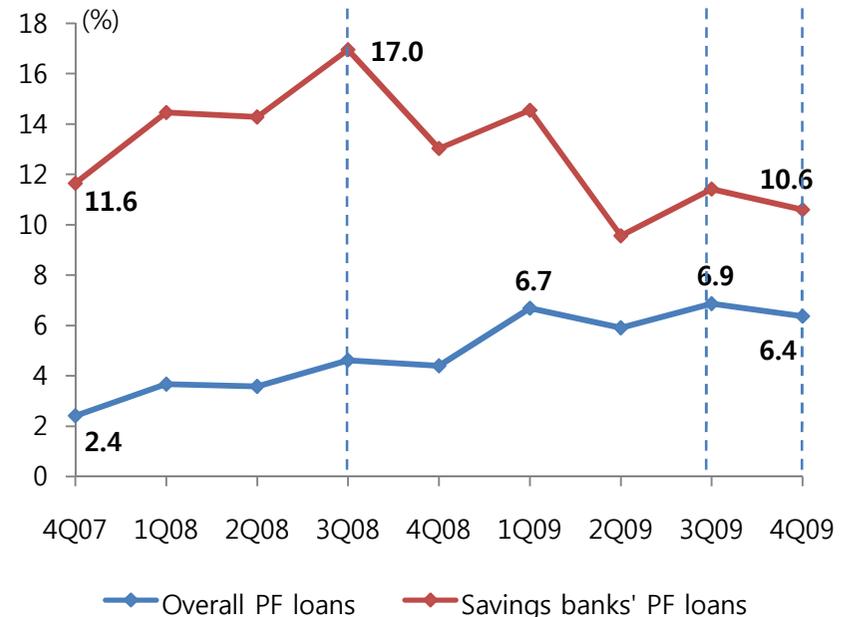
## Current Status of Project Financing

- PF loans have been declining since 2H 2009
- Delinquency ratio decreased
- Slow recovery in the construction sector and rise of housing units raising concerns on financial distress
  - Major concern: PF loan delinquency, especially by saving banks

PF loans



PF loan delinquency ratio



# 3. PF Loans (2)

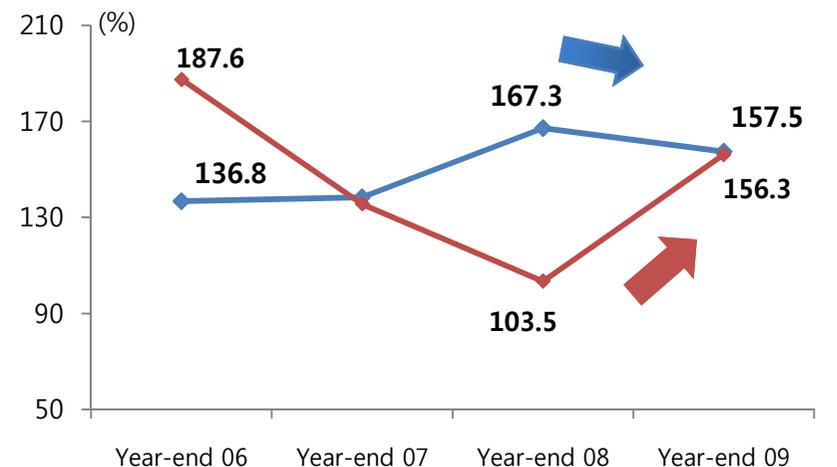
## Limited Impact to the Financial Market

- PF loans account for only 5% of total loans, with savings banks loans representing 14% of PF loans
- Housing units sales and financial soundness of construction companies have been recovering
- Initiated preemptive policy response
  - Stronger supervision on savings banks (e.g. : Reduce annual lending limit for PF loans)

### Unsold Units Nationwide



### Financial Soundness of Construction Firms



◆ Debt ratio     ◆ Liquidity ratio  
 • Liquidity ratio:  $(\text{Cash equivalents} + \text{short-term investments}) / (\text{short-term liabilities} + \text{liquid long-term liabilities})$

# 4. Soundness and Profitability of Korean Banks (1)

## BIS ratio

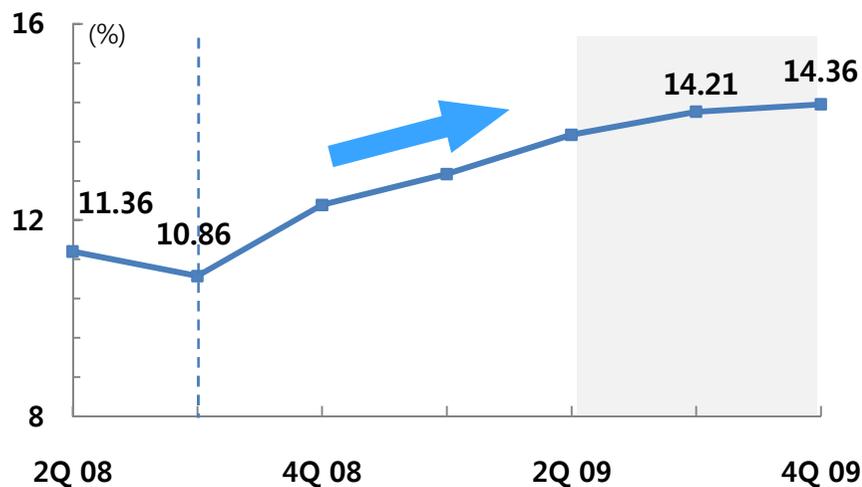
- Capital adequacy is improving
  - BIS ratio of Korean banks have increased
- Comparison (As of Dec.09)

	Korean Banks	Global banks*
BIS	14.36%	14.39%
Core Tier 1	10.01%	8.3%

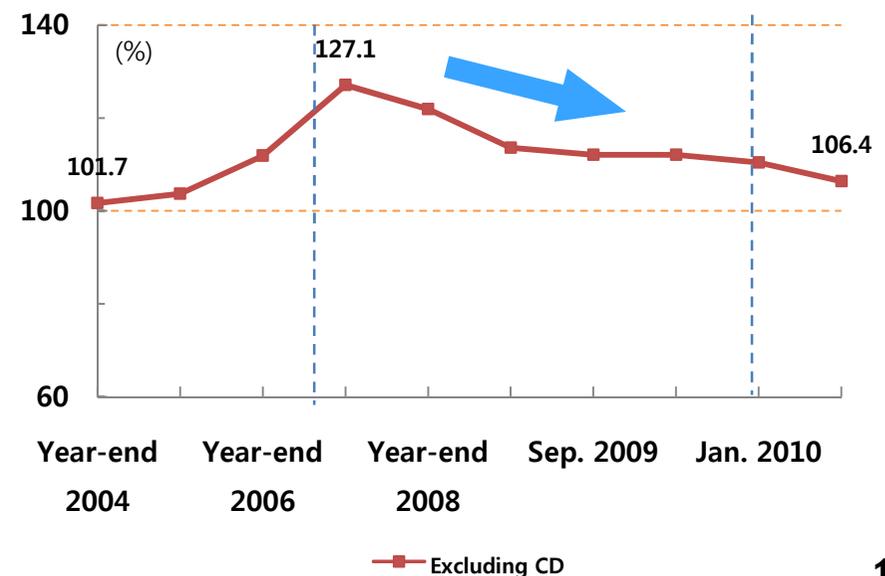
## Loan-to-deposit

- Korean banks competed to expand asset size and wholesale funding
  - Loan-to-deposit ratio has increased in 2007~08
- Since 3Q 2008, loan-to-deposit ratio has decreased

### BIS ratio



### Loan-to-deposit ratio of commercial banks



\* Global banks: 17 big banks chosen by The Banker (As of Sep.09)

## 4. Soundness and Profitability of Korean Banks (2)

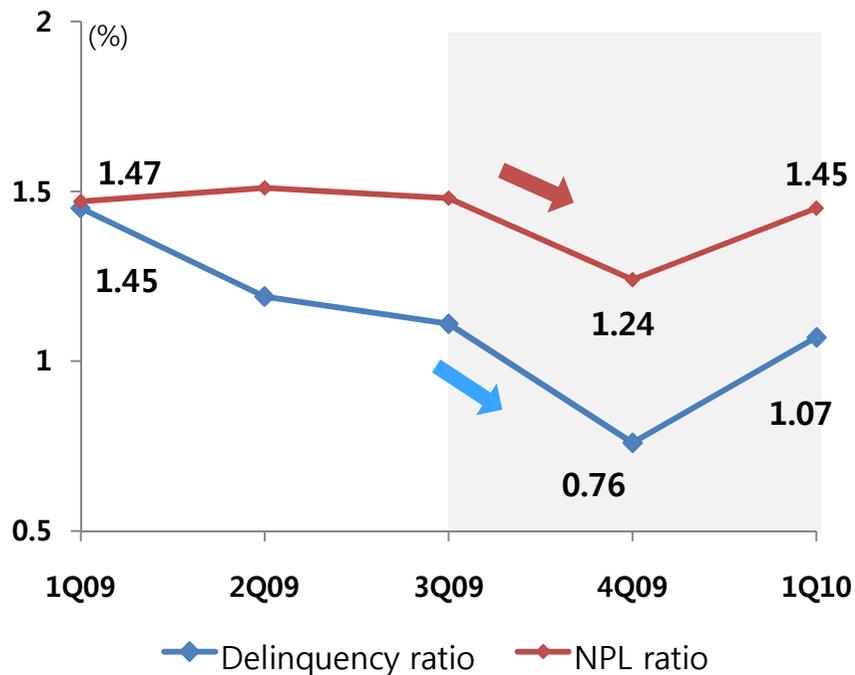
### Asset Soundness

- Delinquency ratio, NPL ratio
- Decreased stably since 1Q 2009

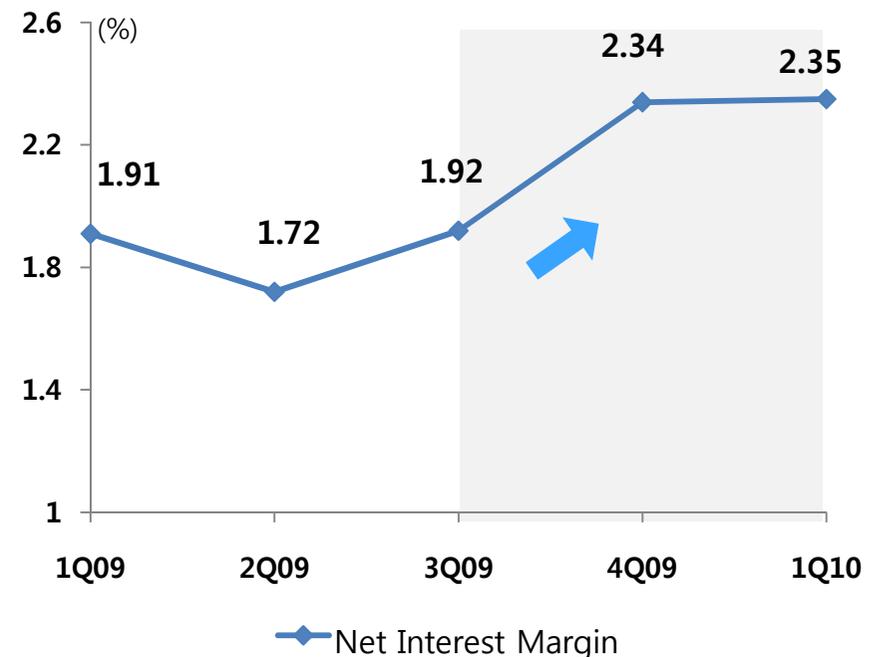
### Profitability

- Profitability of Korean banks
- Net interest margin and profitability improved fast

#### Delinquency Ratio



#### Net Interest Margin



# 5. Public Debt and Fiscal Sustainability

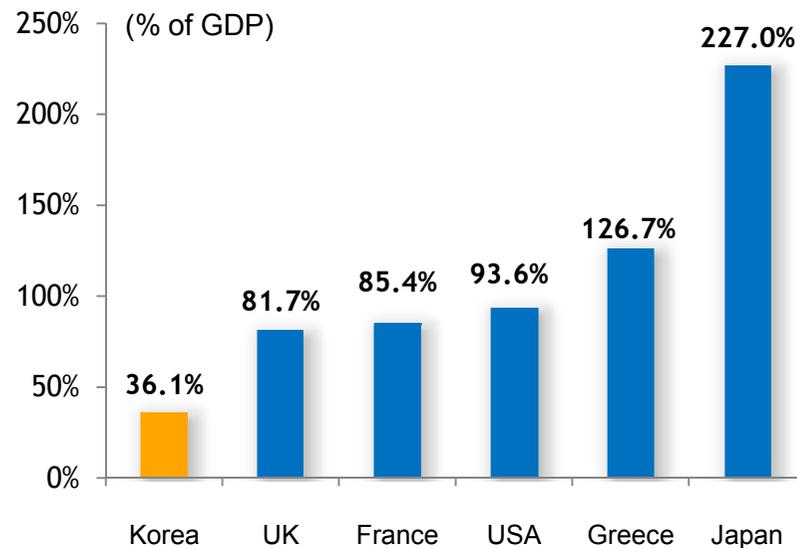
## Present

- Low Public Debt to GDP ratio demonstrating strong fiscal soundness
  - 36% in 2009, lower than other countries
  - No sovereign risk

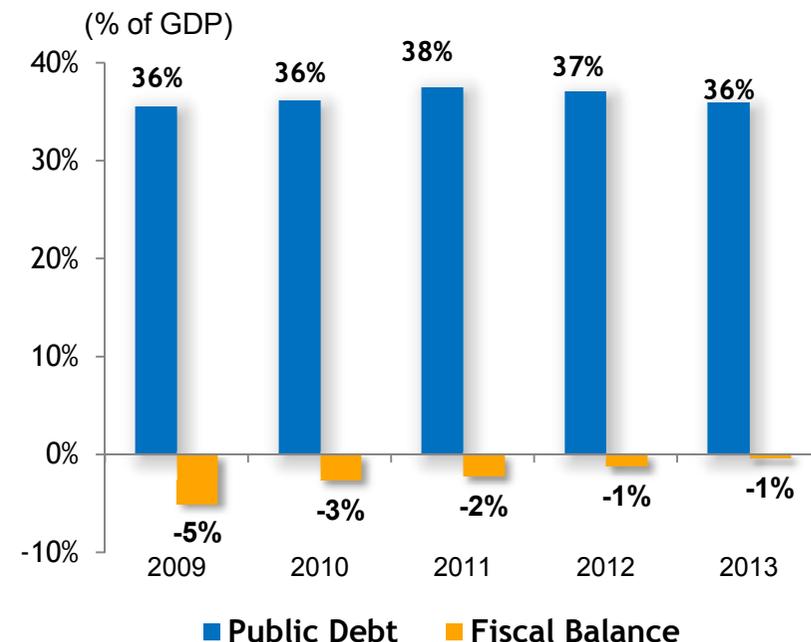
## Future Plans

- Ongoing management of public debt to GDP ratio (Currently mid-upper 30%)
- Reduce fiscal debt to achieve fiscal balance by 2013-2014

### Public Debt to GDP



### Korea's National Fiscal Management Plan



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# Financial Policy Direction

## Upgrade Korea's Position of Financial Sector

### Competitive Financial Industry

```
graph TD; A[Supporting Real Economy] --> B[Competitive Financial Industry]; C[Establishing a Robust Financial System] --> B; D[Promoting an Efficient Capital Market] --> B; E[Privatization of the gov't owned banks] --> B; F[Globalization of Financial Industry] --> B;
```

Supporting  
Real  
Economy

Establishing  
a Robust  
Financial  
System

Promoting  
an Efficient  
Capital Market

Privatization  
of the gov't  
owned banks

Globalization  
of Financial  
Industry

# 1. Supporting Real Economy

## Funding Economic Revitalization

- Sufficient capital supply to companies through policy financial institutions

\* KODIT: Korea Credit Guarantee Fund

\* KIBO: Korea Technology Finance Corporation

kdb

IBK

KODIT

KIBO

KRW 23 tn  
(USD 23 bn)



KRW 94 tn  
(USD 94 bn)

Facility  
Investment

SME

(KRW 1000 = USD 1)

## Enhancing Corporate Structures

- Continue corporate restructuring efforts led by creditor financial companies
- Promoting corporate restructuring through capital market

## 2. Establishing a Robust Financial System

### Proactive Regulatory Measures

- Stronger risk management on household lending
  - LTV, DTI regulation
- Introduce the regulation of loan-to-deposit ratio to curb excessive bank asset growth
  - Loan-to-deposit ratio(excluding CD)  $\leq 1$  (grace period until 2014)
  - Take into account the parallel links with BCBS regulations on liquidity, if and when it is introduced
- Introduce a package of measures to enhance FX soundness of individual FIs

# 3. Promoting an Efficient Capital Market

## Reform of Regulatory Framework

- Enacted the **Financial Investment Services and Capital Markets Act (FSCMA)** to replace separate regulations governing securities, derivatives and asset management
- Further reforms underway in hedge funds, private equity funds and other private funds

## Global Infrastructure

- Full adoption of IFRS (by 2011)
- Develop CCP clearing to minimize risks in OTC trading and enhance transparency (by 2012)

## Increase Participation of Foreign Investors

- Allow foreign investors to trade government bonds via Euroclear and other ICSD omnibus accounts (Since 2009)
- Growing number of foreign companies listed on Korea Exchange (2 in 2007 → 14 in April 2010)
- Upgraded to developed status on the FTSE (Sept '09) and being reviewed for inclusion in MSCI, WGBI index

## 4. Privatization of government-owned banks

### Korea Development Bank to be Privatized

- For the successful privatization,
  - Improve financial and income structure (2010)
  - Developing privatization plan for KDB Holdings (2011) and sell shares based on the plan



### Woori Bank to be Privatized

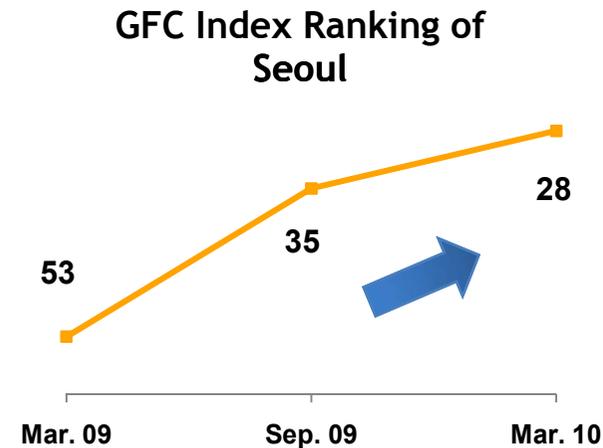
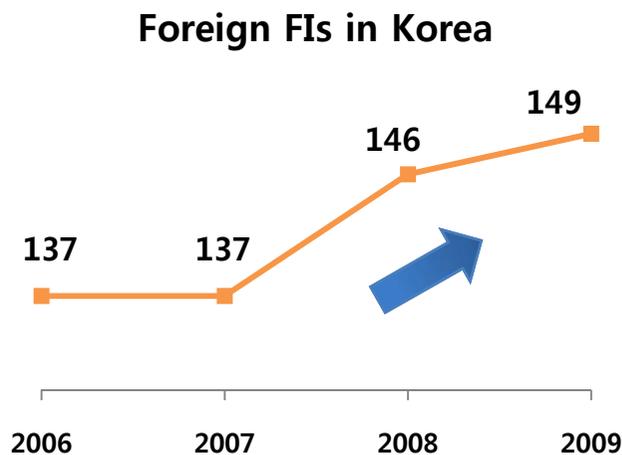
- Developing privatization plan for Woori Financial Holding in the 1<sup>st</sup> half of 2010
- Starting process of privatization in the 2<sup>nd</sup> half of 2010
  - Considering a wide range of options (sell-off, M&A etc) in view of public funds maximization



# 5. Globalization of Financial Industry

## Strategic Approach to Financial hub

- Regional financial hub specializing in asset management and derivatives trading
- Gov't incentives on Financial Hub (Seoul, Busan) program driving foreign company presence in Korea
  - Incentives(expected): **Tax deduction &** finance supporting to the foreign FI



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# Korea's Global Leadership

## Korea Premium

- From Aid Recipient to Donor : Joined OECD Development Assistant Committee(DAC) (Nov. 2009)
- Hosting G20 Summit(Nov. 2010) & taking the leading role in the G20
  - Finalizing core financial reform agenda to keep reform momentum
  - Constructing resilient global financial system to support sustainable growth



**Global Leadership**  
**Strong Fundamentals**

**Successfully Overcoming Two Recent Crisis**



**Korea Discount**

**Thank you**

