



The Truth of Korean Economy and Future Implication

May 11, 2010

**Kwon, Hyouk Se
Vice Chairman**

**Financial Services Commission
Republic of Korea**

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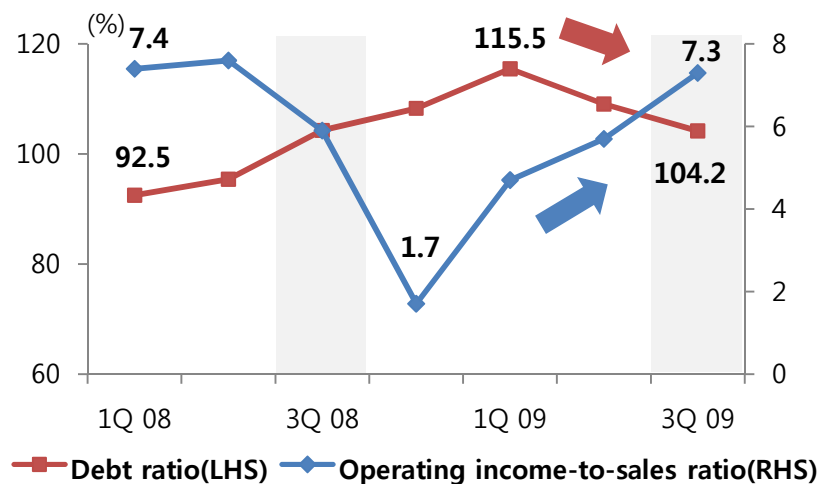
- I . Current Economy Conditions**
- II . Overcoming the Crisis: Key Drivers**
- III . Major Issues of Korean Financial Market**
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- V . Korea's Global Leadership**



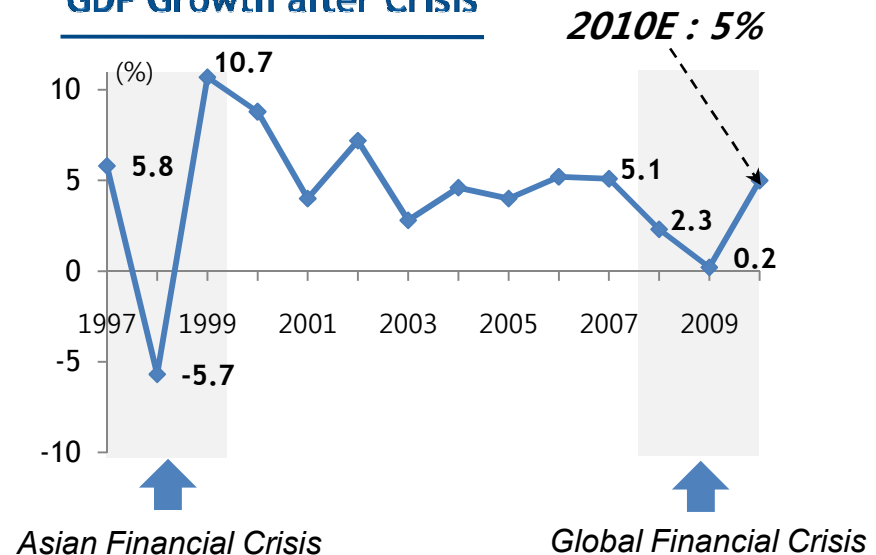
1. Real Economy

- 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

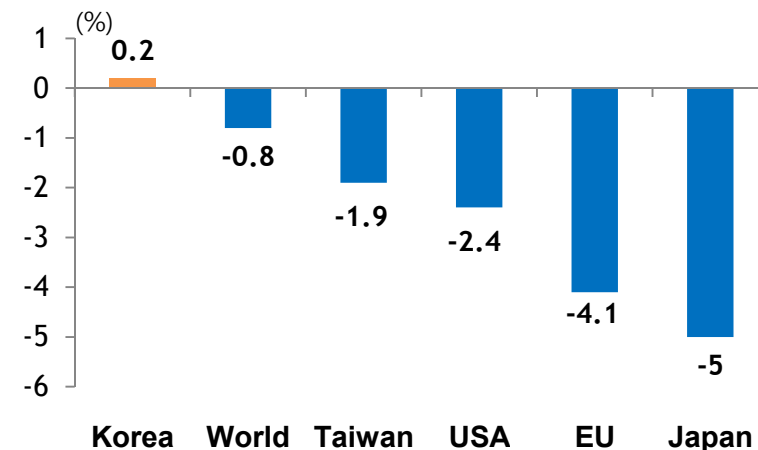
Profitability & Financial Soundness of Businesses



GDP Growth after Crisis

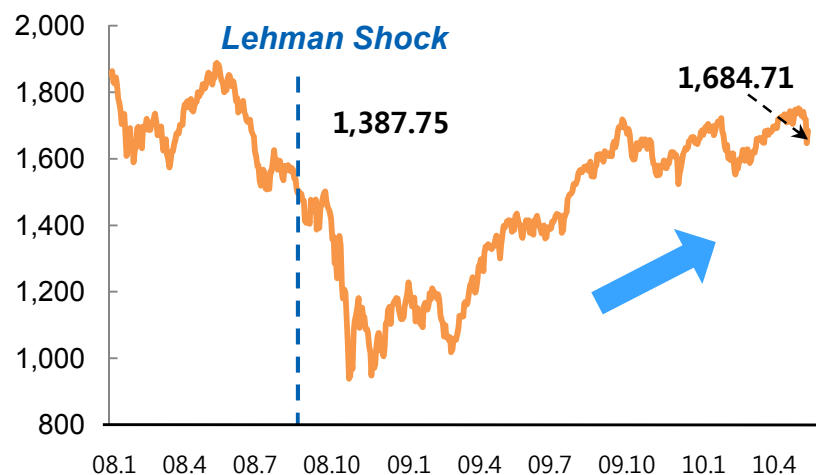


2009 GDP Growth Rate per Region

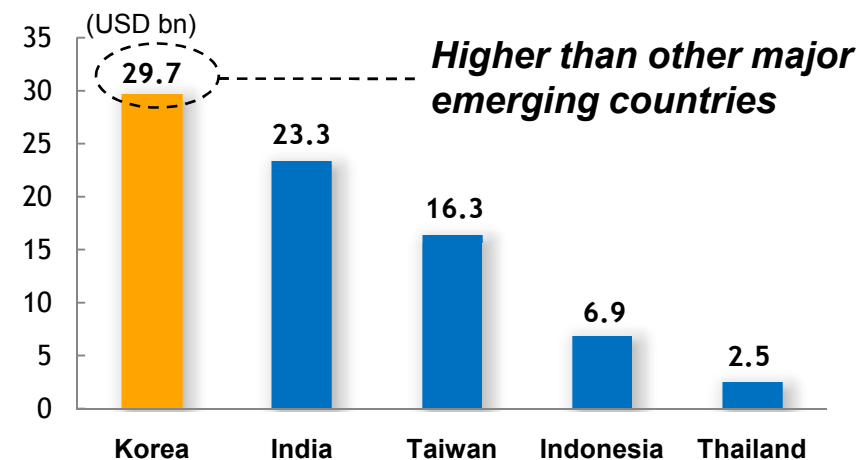


2. Financial Market

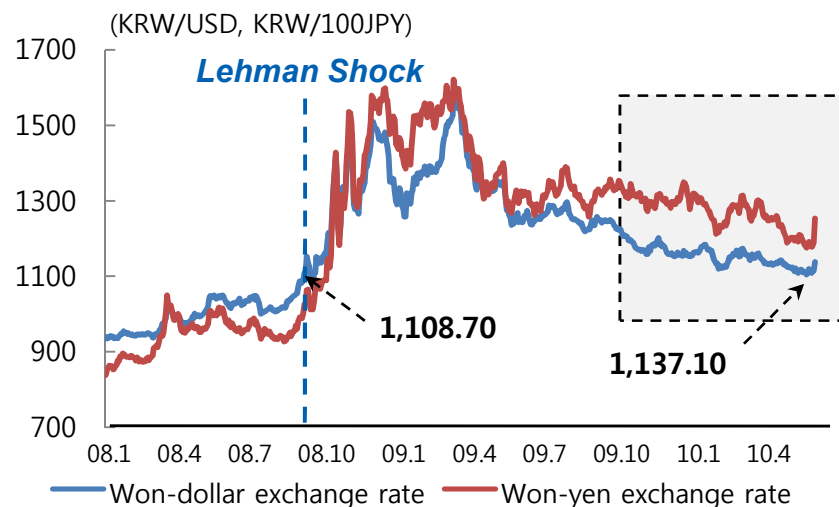
Stock Index Movements (KOSPI)



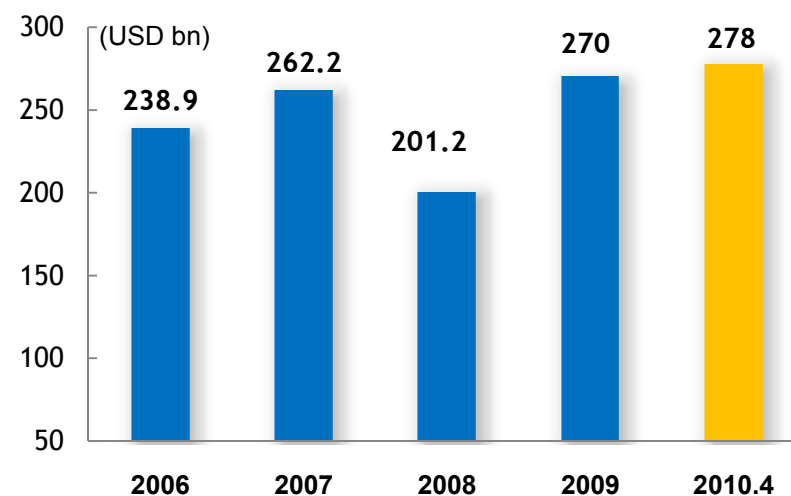
Foreign Net Purchase in Stock Market (Jan.09~Mar.10)



Foreign Exchange Rate



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
Causes	Internal factors such as corporate bankruptcy	External factors
Foreign Exchange	Foreign Currency Reserves	US\$ 8.9bn
	ST External Debt / FX Reserves	717%
	Total External Debt / FX Reserves	1,957%
Banks	Bank NPL Ratio	6.0%
	BIS Ratio	7.0%
Corporates	Corporate Debt Ratio	424.6%
	Corporate Interest Coverage Ratio	115.0%

¹ 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 ¹)
- 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

¹ 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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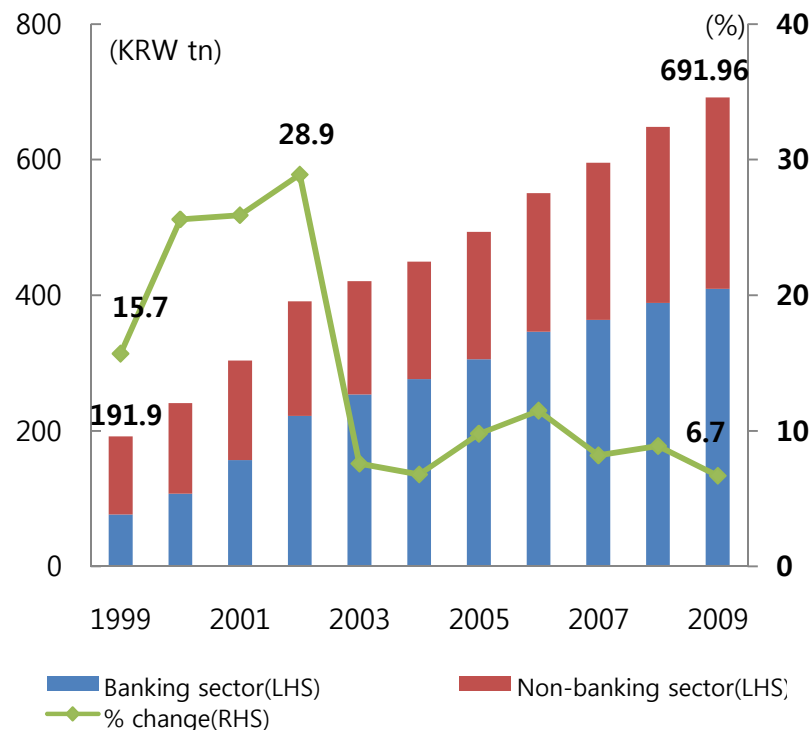


1. Household Debt (1)

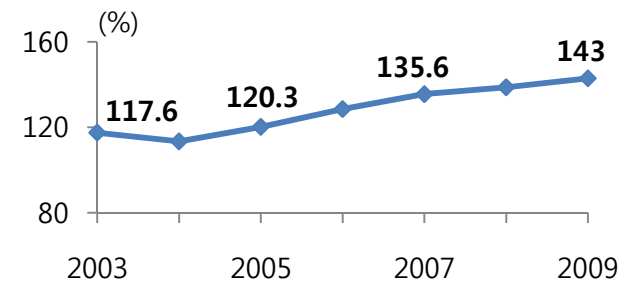
Current Status of Household Debt

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

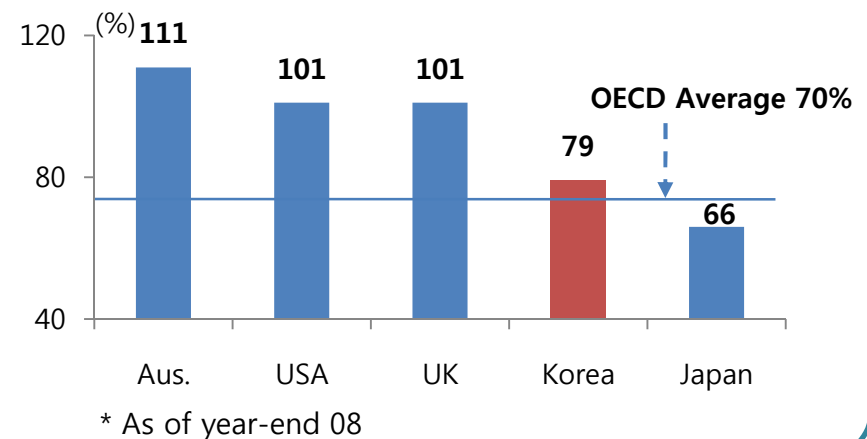
Household Loans



Household Debt to Disposable Income



Household Debt to GDP

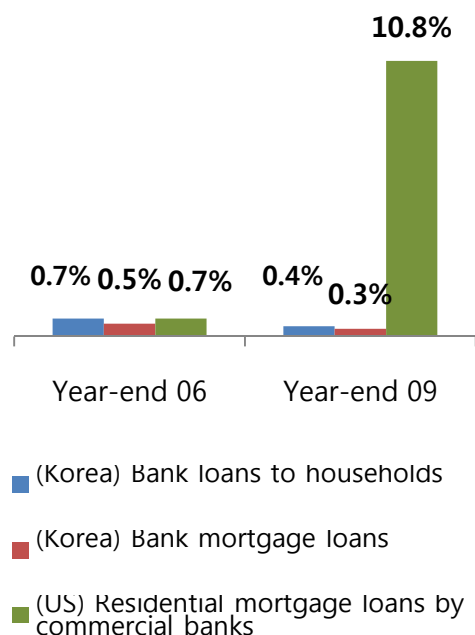


1. Household Debt (2)

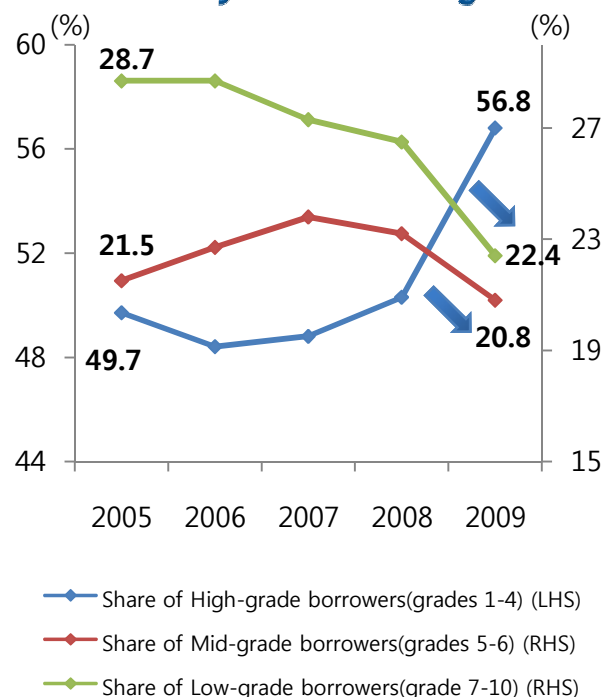
Manageable Risk Level

- 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

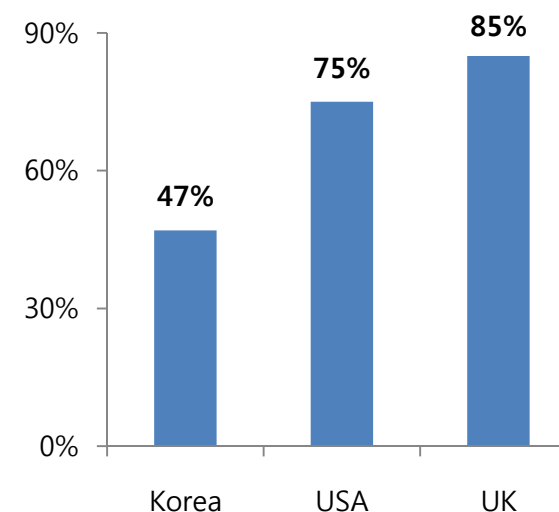
Household Loan Delinquency



Shares in Household Loans by Credit Rating



LTV Ratio

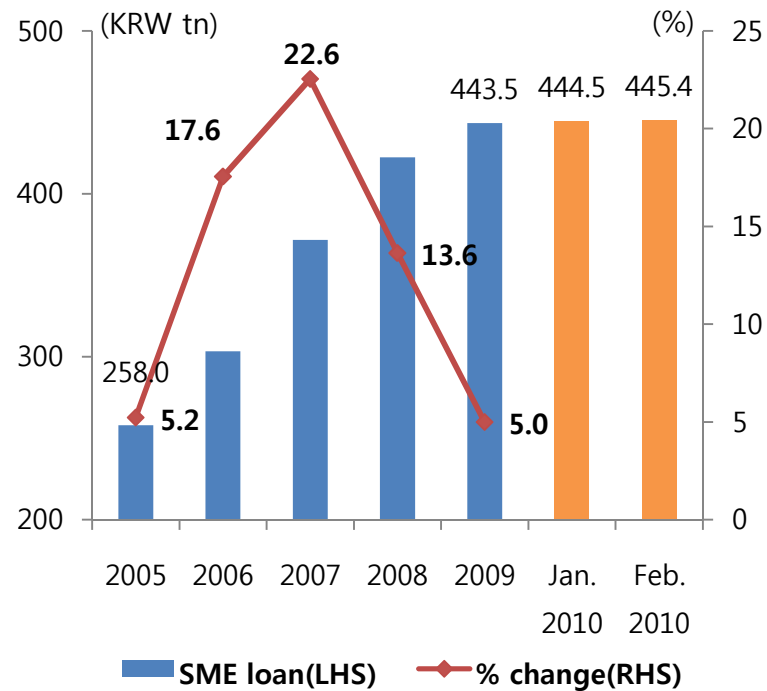


• As of Jul-09 (As of end 07 for UK)

2. SME Debt (1)

SME loan

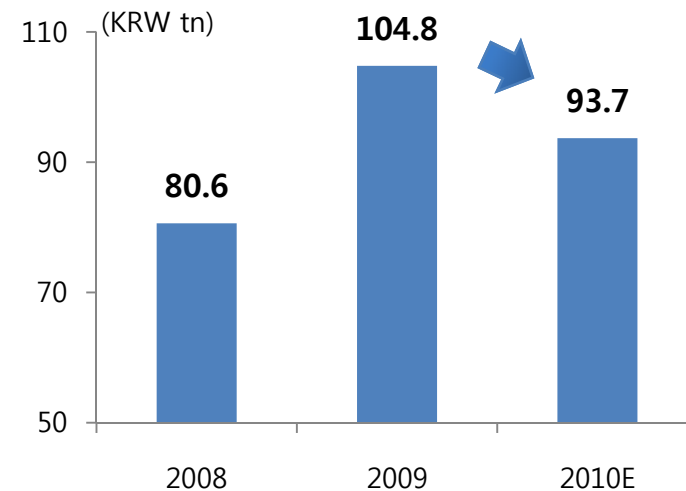
- SME loan has increased until 2009
- However, SME loan growth rate has declined



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

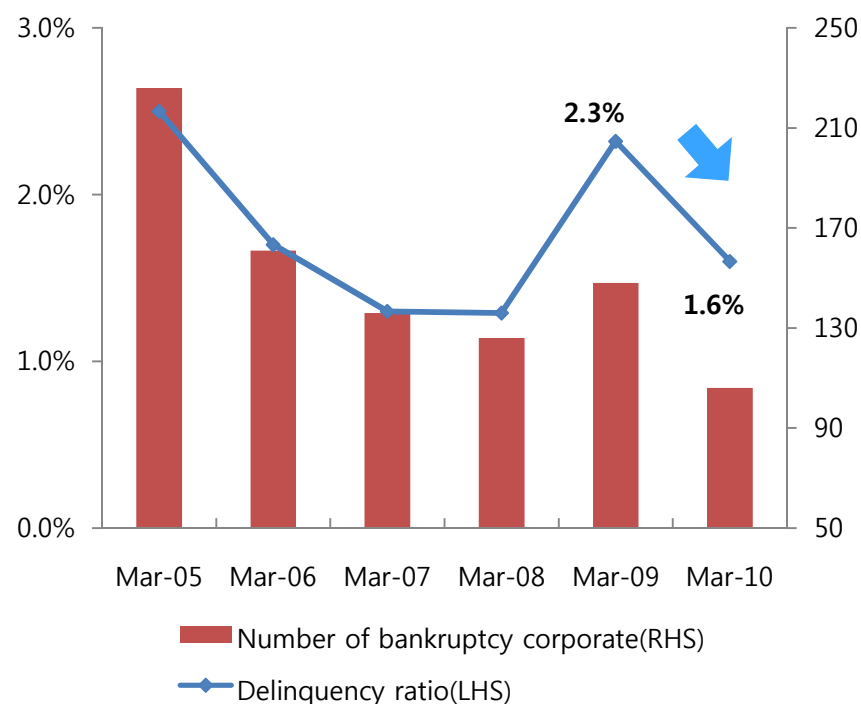


2. SME Debt (2)

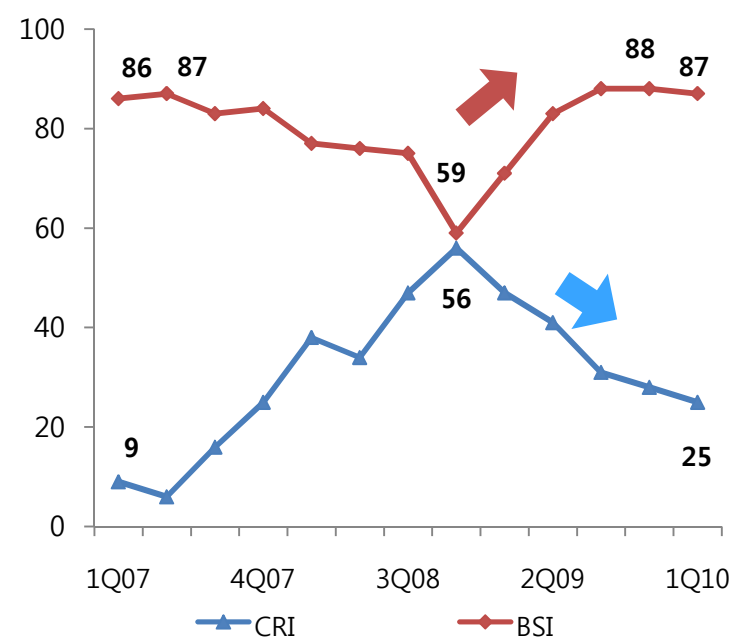
Manageable levels

- 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

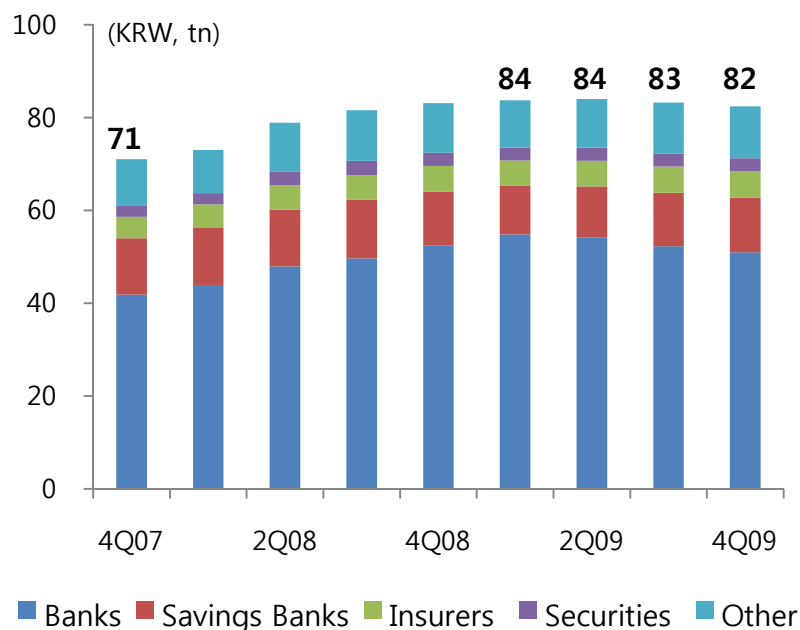


3. PF Loans (1)

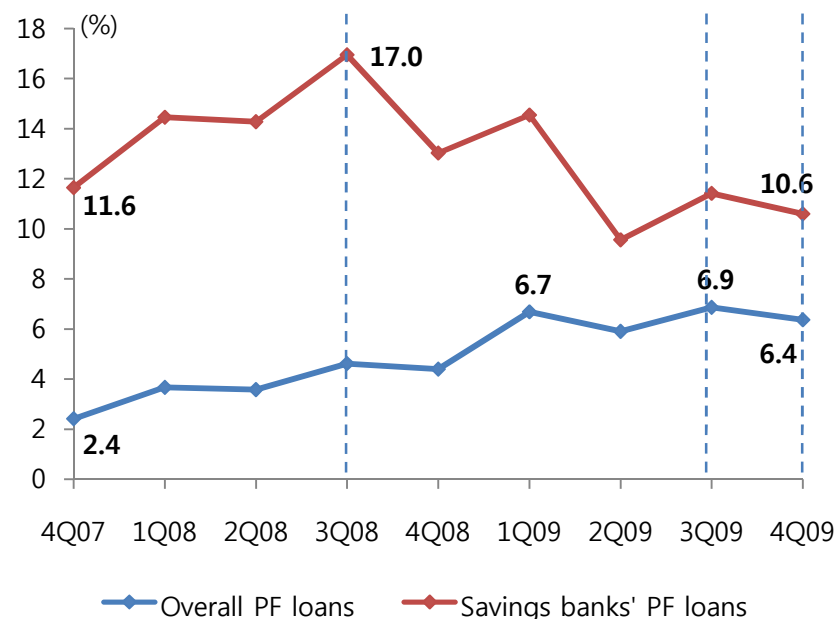
Current Status of Project Financing

- 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

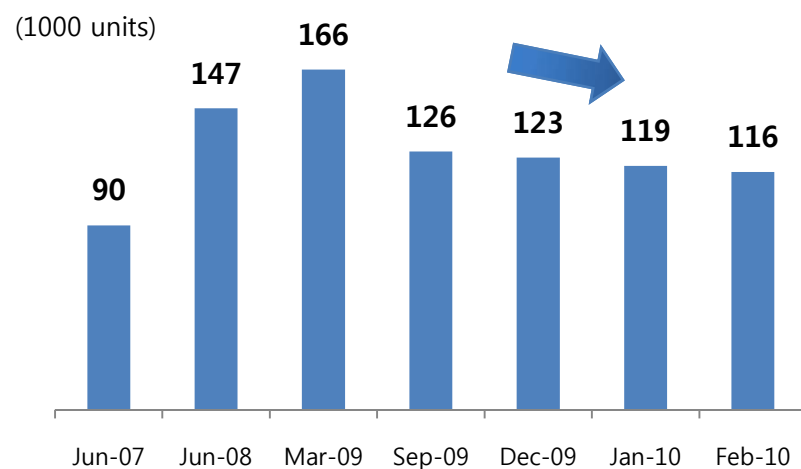


3. PF Loans (2)

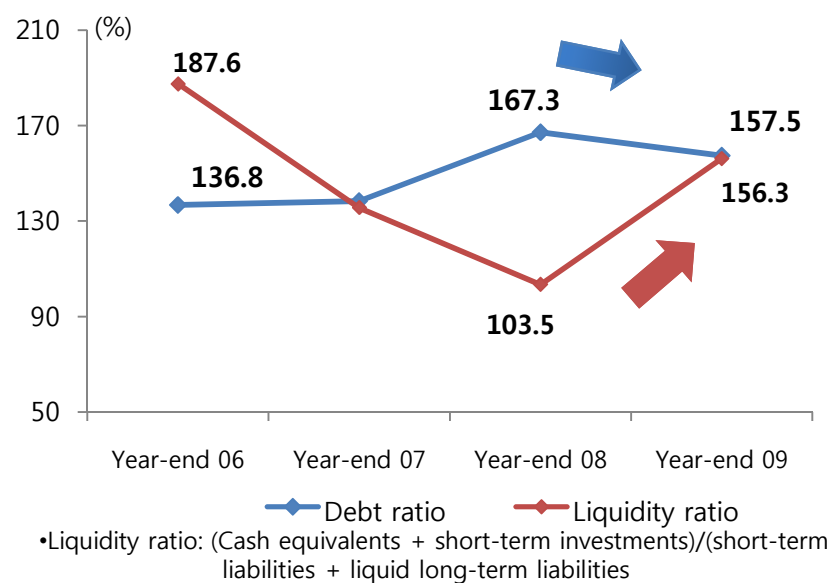
Limited Impact to the Financial Market

- 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



4. Soundness and Profitability of Korean Banks (1)

BIS ratio

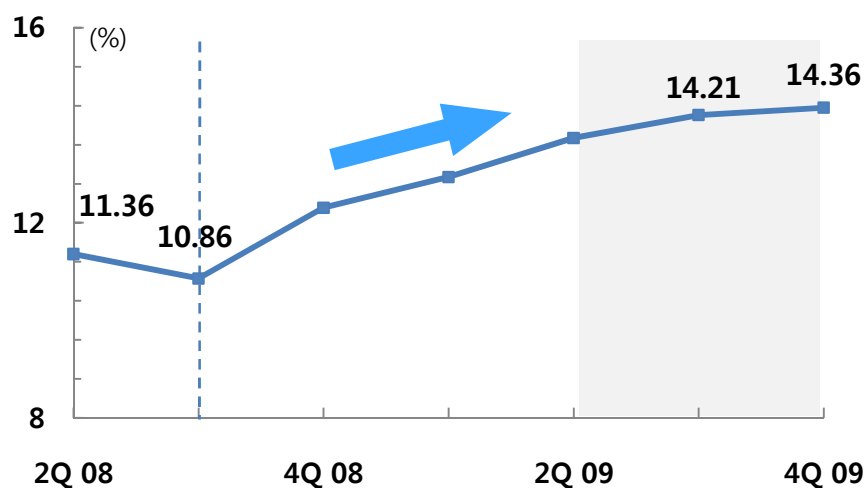
- Capital adequacy is improving
 - BIS ratio of Korean banks have increased
- Comparison (As of Dec.09)

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

Loan-to-deposit

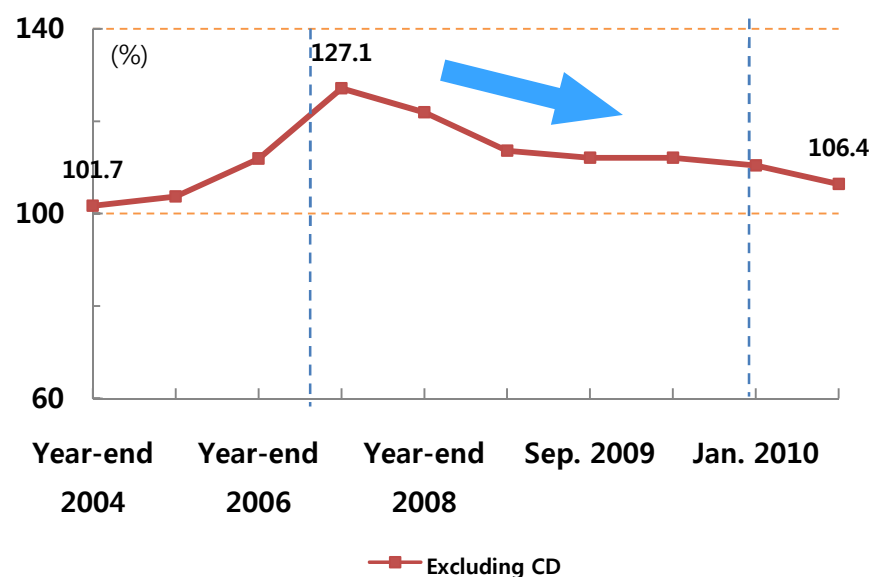
- Korean banks competed to expand asset size and wholesale funding
 - Loan-to-deposit ratio has increased in 2007~08
- Since 3Q 2008, loan-to-deposit ratio has decreased

BIS ratio



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

Loan-to-deposit ratio of commercial banks



4. Soundness and Profitability of Korean Banks (2)

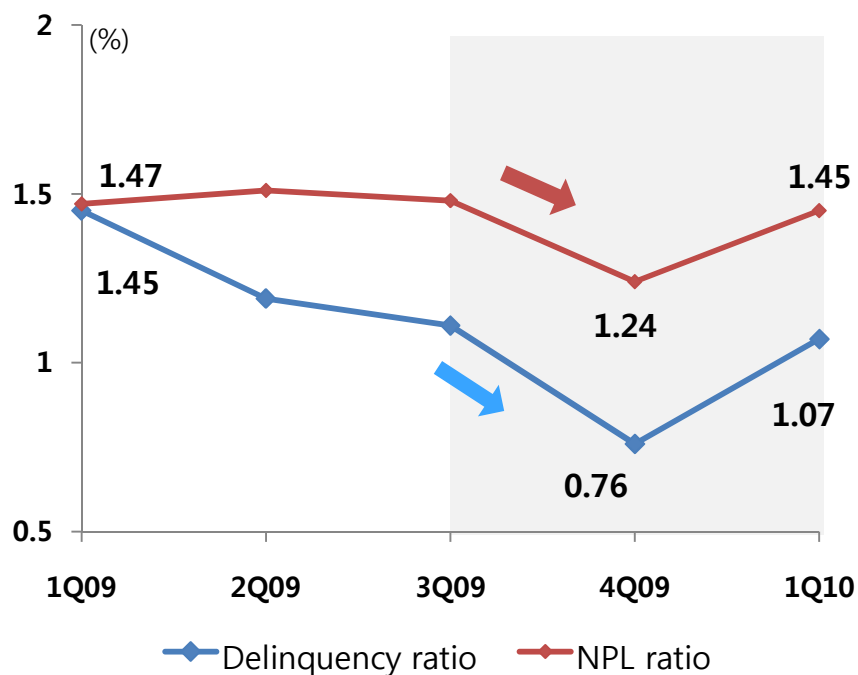
Asset Soundness

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

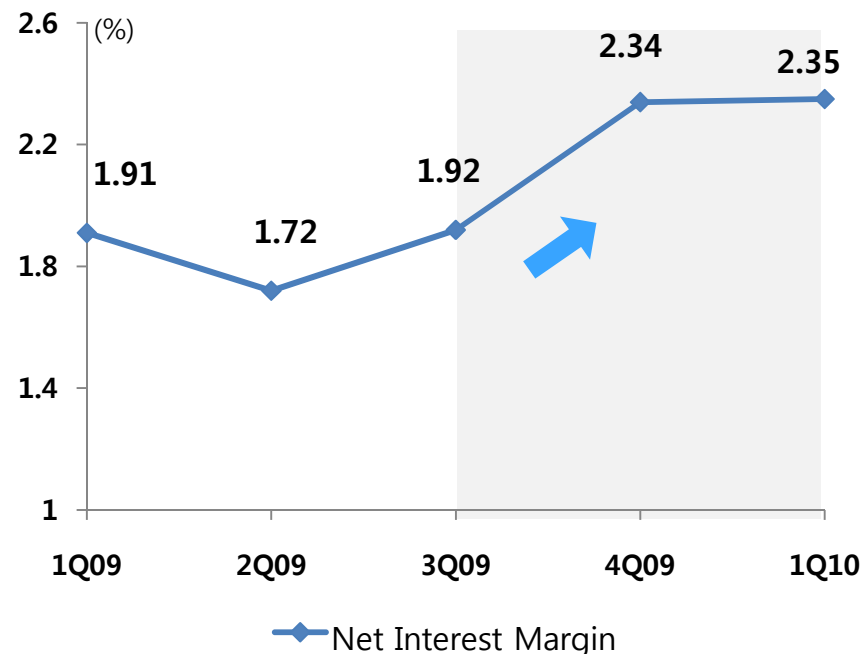
Profitability

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

Delinquency Ratio



Net Interest Margin



5. Public Debt and Fiscal Sustainability

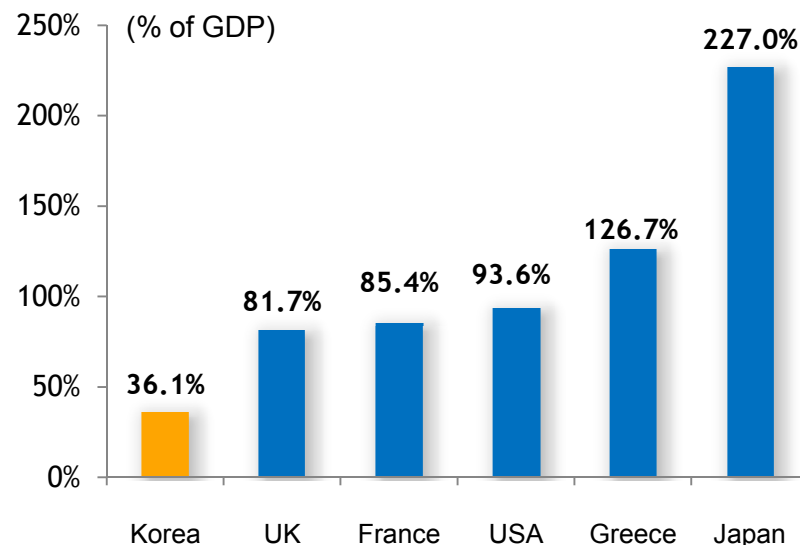
Present

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

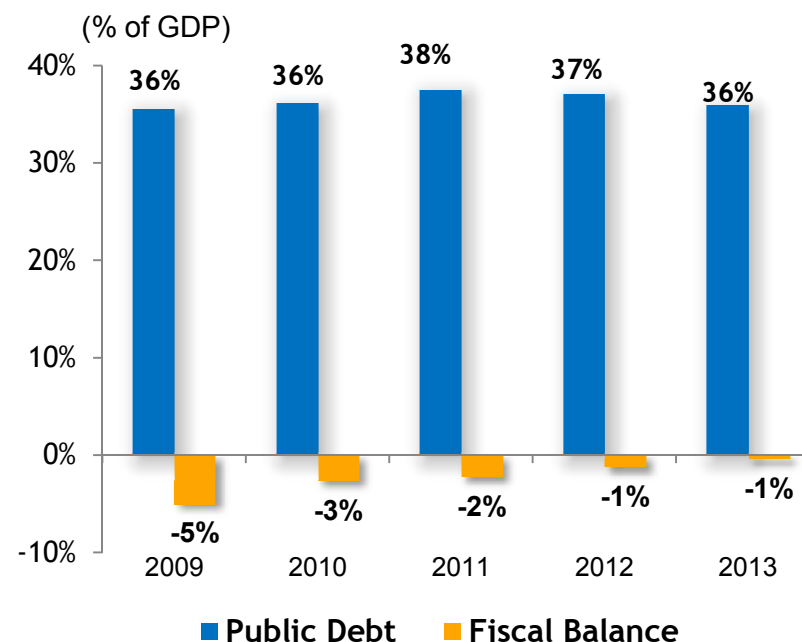
Future Plans

- 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



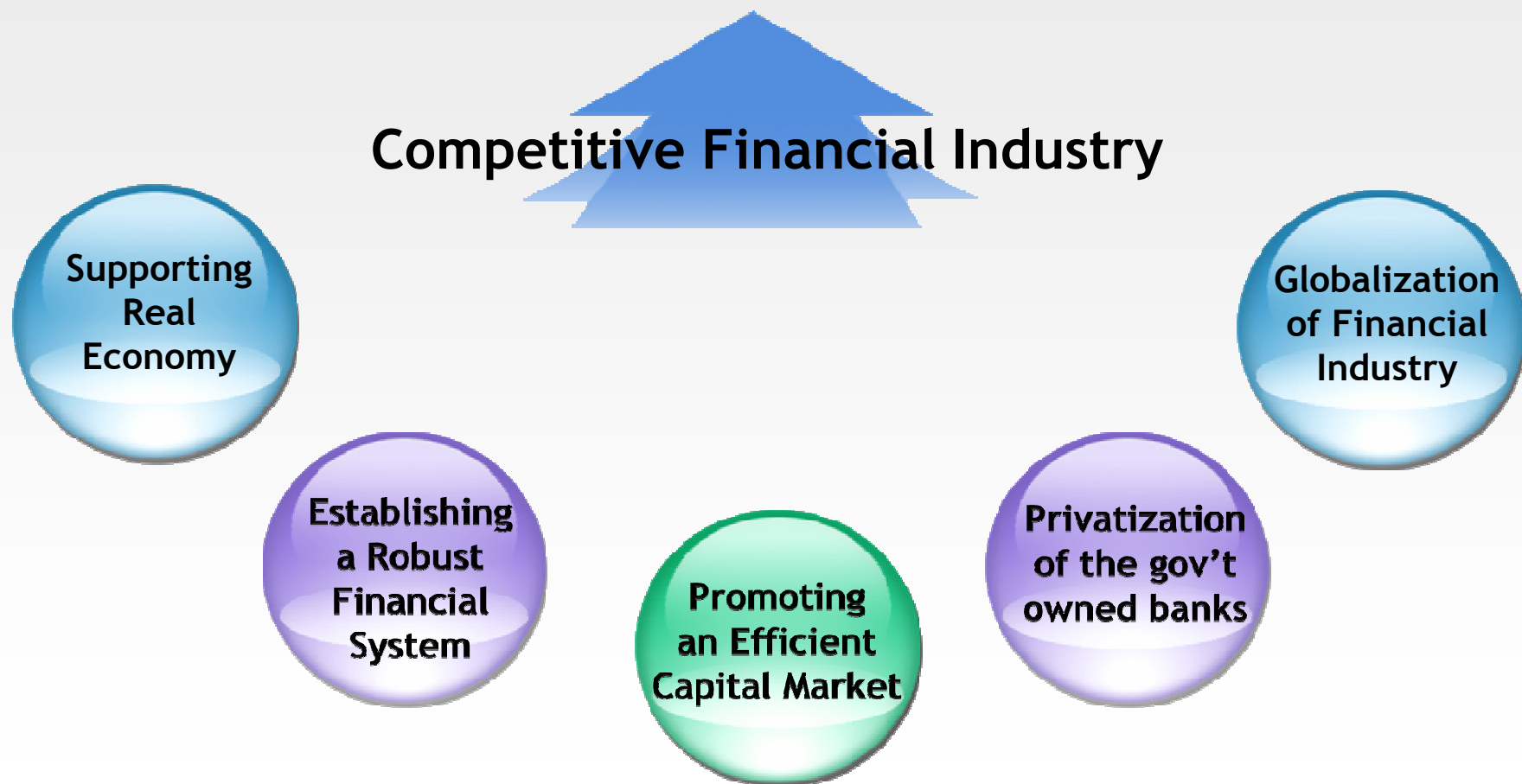
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Financial Policy Direction

Upgrade Korea's Position of Financial Sector



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) ≤ 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

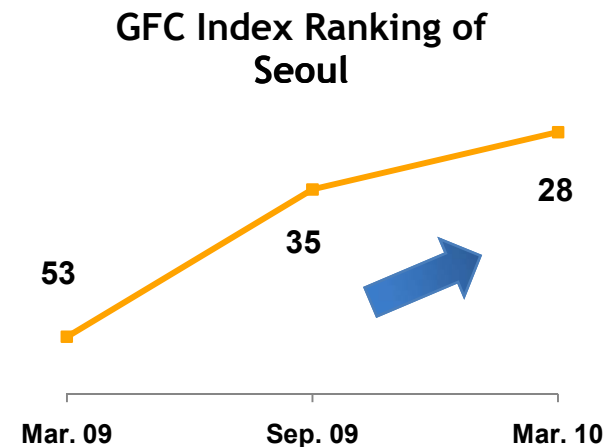
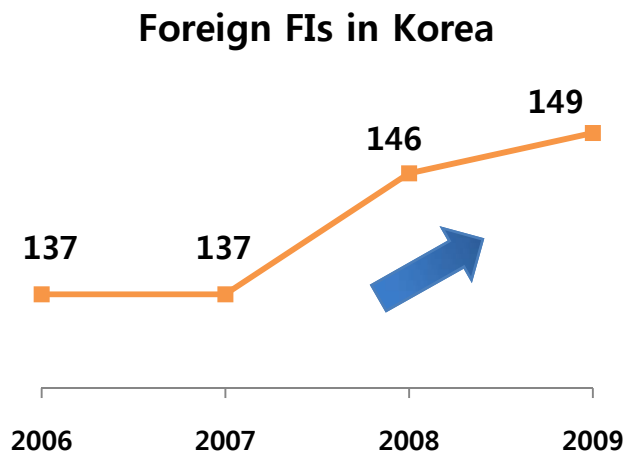
- Developing privatization plan for Woori Financial Holding in the 1st half of 2010
- Starting process of privatization in the 2nd half of 2010
 - Considering a wide range of options(sell-off, M&A etc) in view of public funds maximization



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

