

# **The Korean Financial Market and Economy : Resilience Amidst Turbulence**

**November 2008**

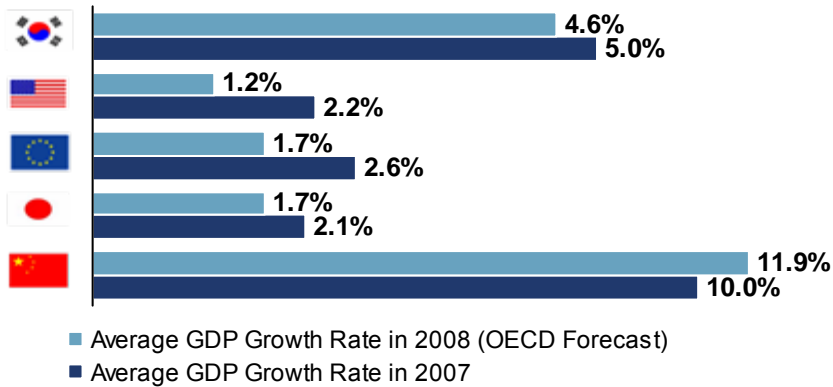


# Strong Macroeconomic Performance

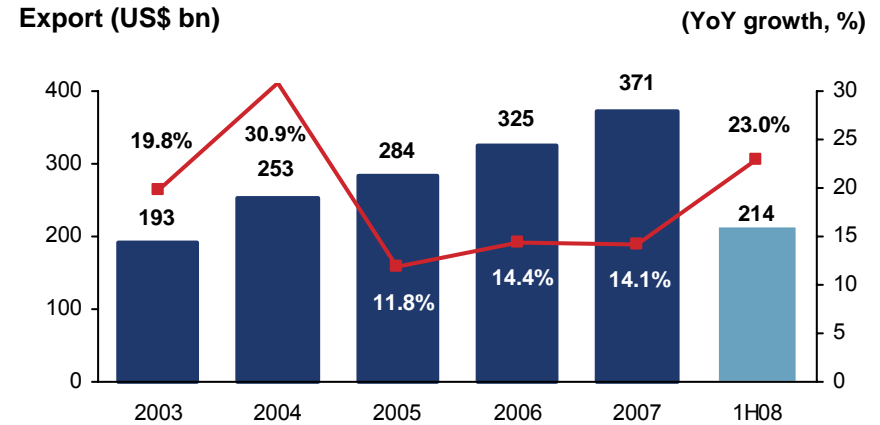


# Robust Macroeconomic Fundamentals

## Sound GDP Growth

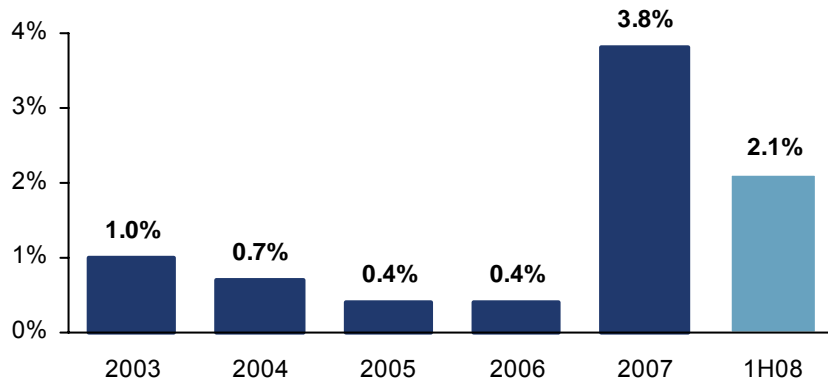


## Robust Exports



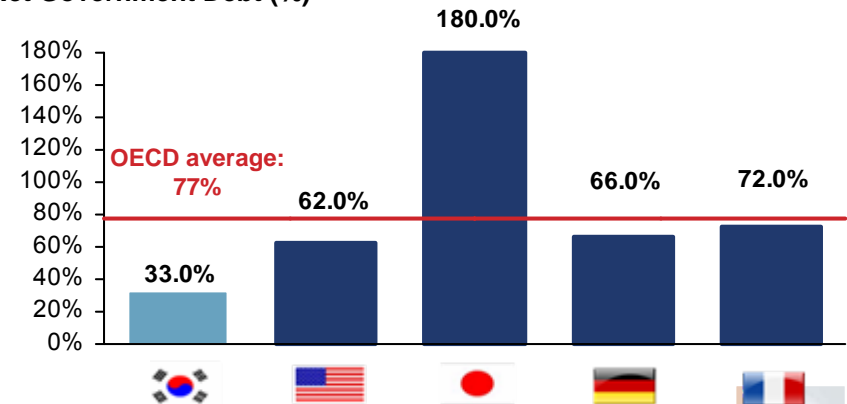
## Continuous Fiscal Surpluses

### Consolidated Government Balance (% of GDP)



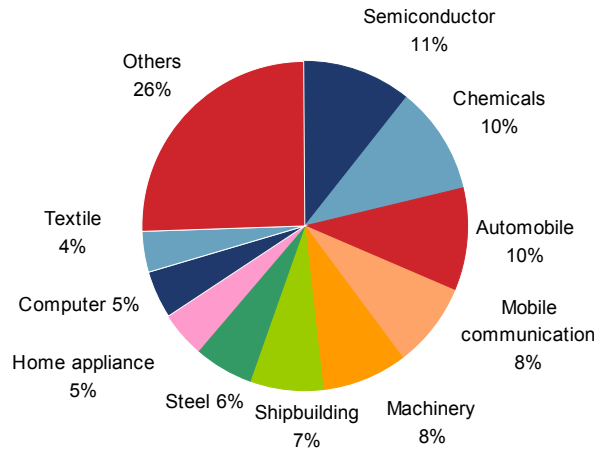
## Lower Debt Levels Than OECD Peers

### Net Government Debt (%)



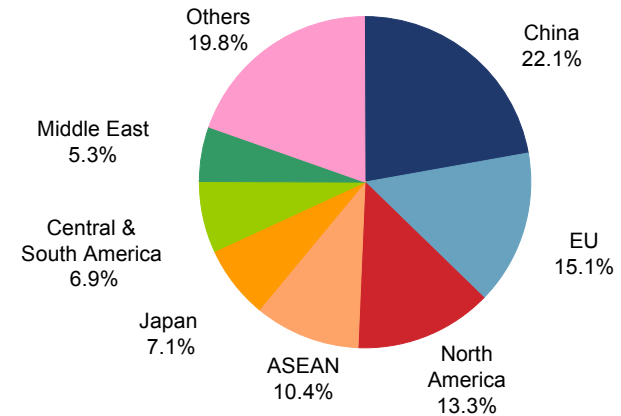
# Improving Current Account Surplus

## Diversified Export Products



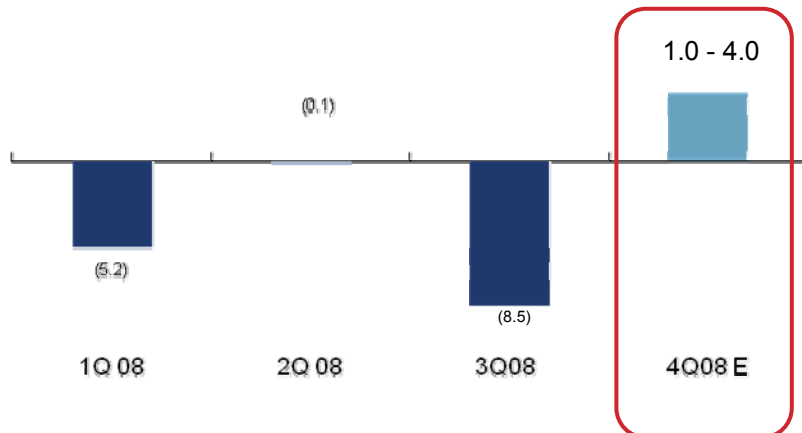
Source: KITA, as of 2007

## Diversified Export Markets



## Current Account Balance Expected to Turn to Surplus in 4Q 2008

### 2008 Current account balance (US\$ bn)



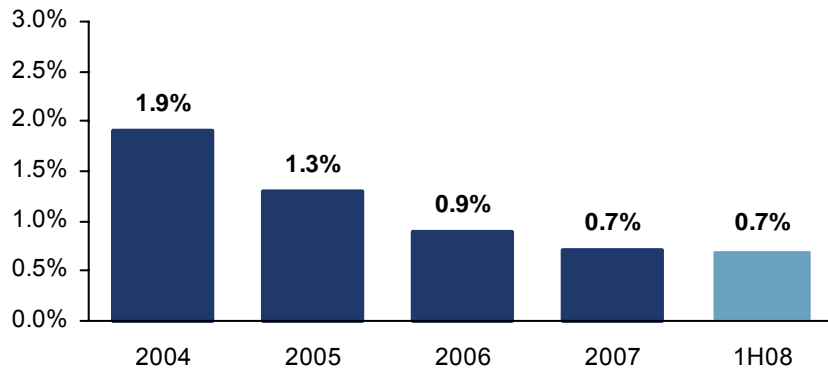
- As of September 2008 Korea has a current account deficit of around US\$13.8bn
- The deficit stems from the deteriorating goods-trade account caused by surging import prices, especially oil
  - Price of Imports have increased 24.8%, driven primarily by crude oil prices
- It is expected that the goods-trade account will swing to a surplus as energy prices continue to decline



# Strong Financial Sector

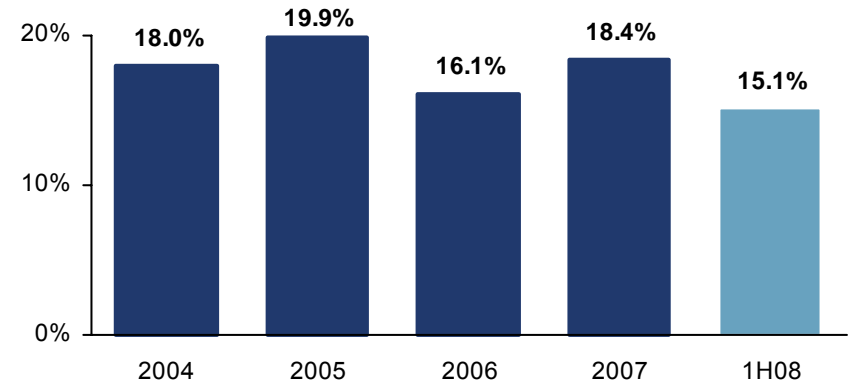
## Improved Asset Quality

Avg. NPL (%)

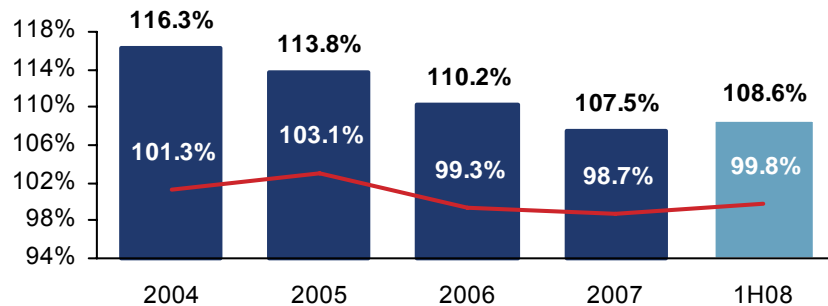


## Adequate Profitability

Avg. ROE (%)



## Stable Liquidity

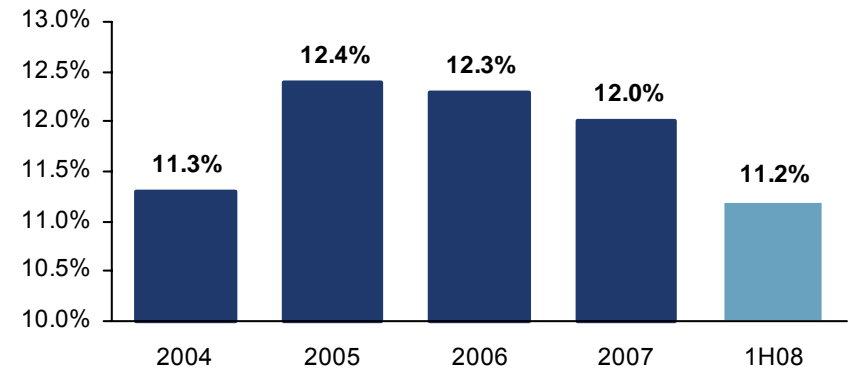


■ KRW Liquidity

— Foreign Currency Liquidity

## Sound BIS Ratio

BIS Ratio (%)



\* Includes commercial banks only

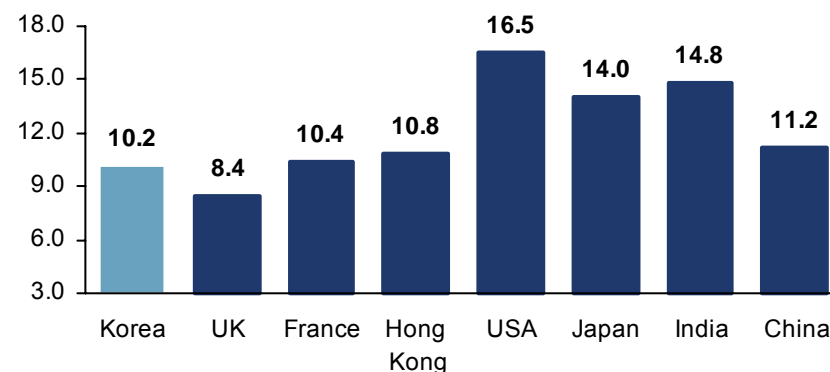


# Attractive Corporate Sector

## Improved Earnings of Listed Companies

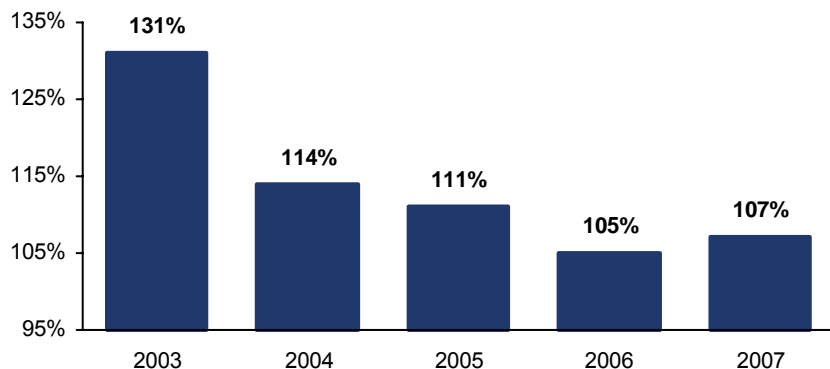
(US\$ bn)	1H07	1H08	Growth
Revenue	355.0 (328.9)	440.0 (401.2)	23.9% (21.9%)
Operating Income	31.7 (22.6)	39.2 (32.4)	23.9% (43.7%)
Net Income	30.0 (22.7)	30.3 (24.4)	1.0% (7.8%)

## PER Comparison (September 2008, MSCI Index)



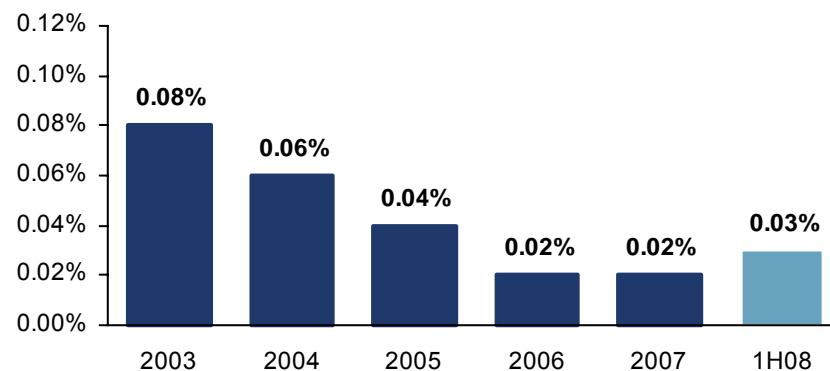
## Decreasing Debt/Equity Ratio

### Debt/Equity Ratio (%)



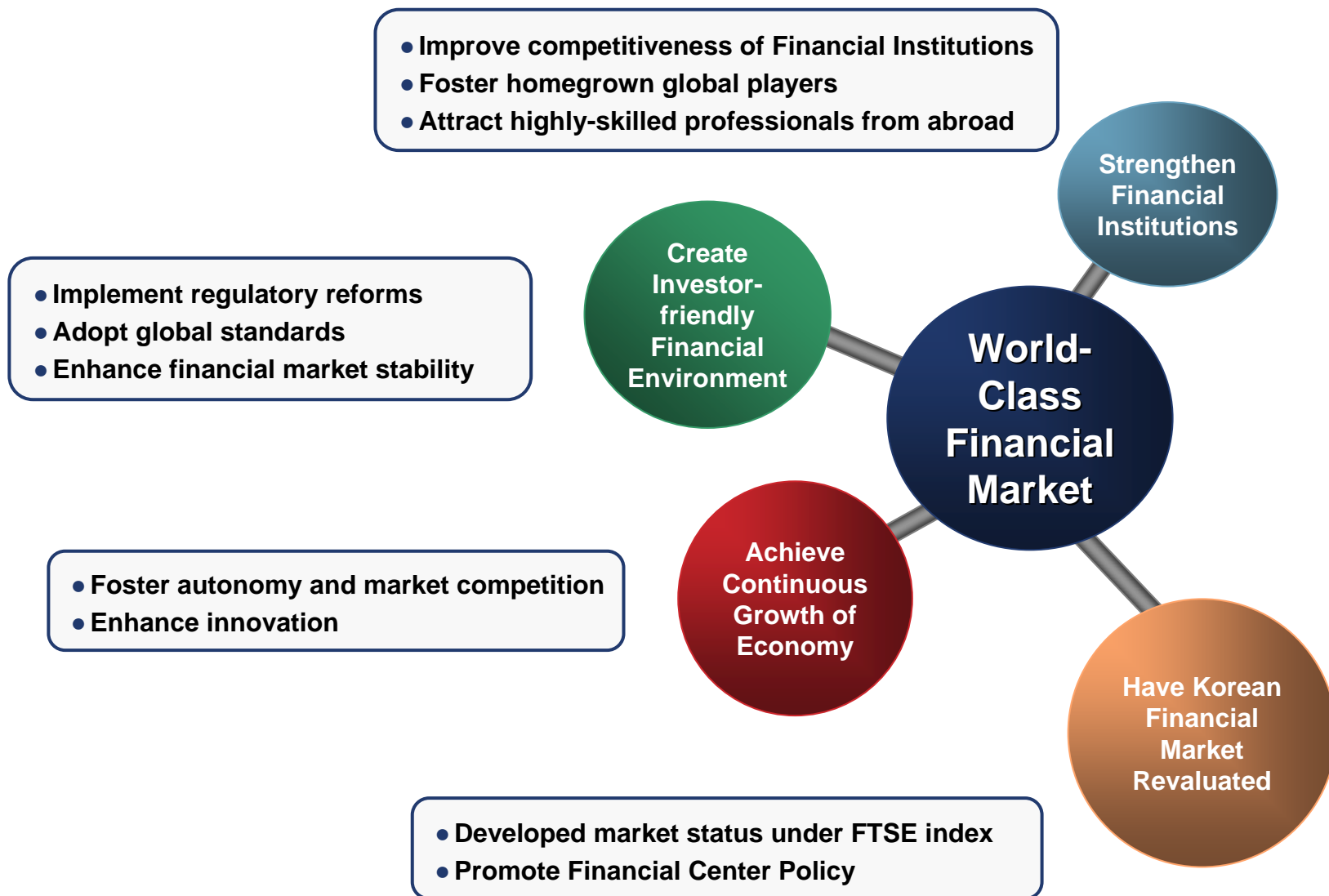
## Low Bill Defaults

### Bill Defaults (%)



\* Includes companies listed in the MSCI Index

# Visions for the Korean Financial Markets



# Fact or Fiction? Korea in the Current Market Turbulence



# Fact or Fiction?

## Market Speculation

**#1** *“Korea is at risk of external debt defaults.”*

**#2** *“The Korean Banking System is too levered and faces a liquidity crisis.”*

**#3** *“The Korean housing sector is under stress and may collapse.”*

## Fact or Fiction?

### FICTION

- A closer look at Korea’s external debt composition reveals that significant amount of external debt is risk-free
- In addition, Korea has a healthy external sector with abundant foreign reserves and high liquidity

### FICTION

- The banking sector has seen moderating loan growth in 2008 with continued low levels of delinquency
- Furthermore, there is no mismatch between foreign currency assets and liabilities held by Korean banks; foreign currency liquidity ratio remains high

### FICTION

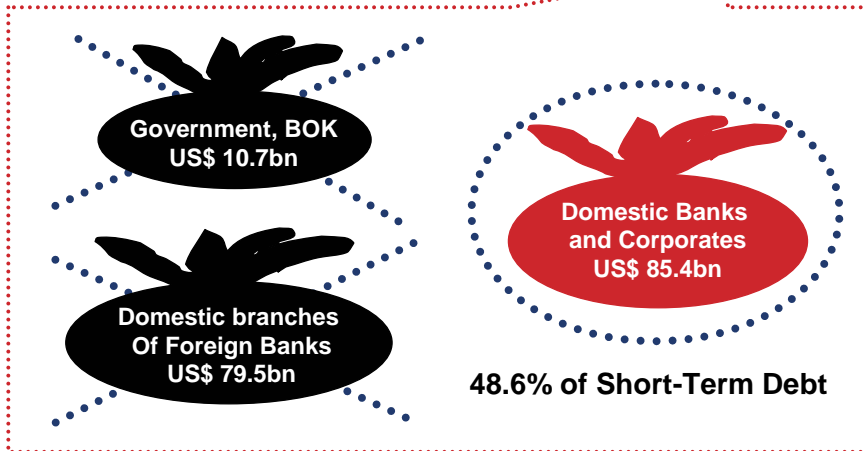
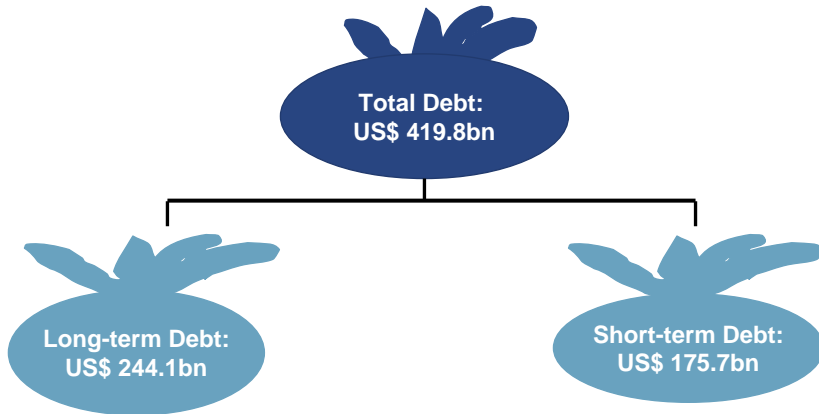
- The Korean Housing Sector has maintained balanced growth rates supported by robust mortgage regulations



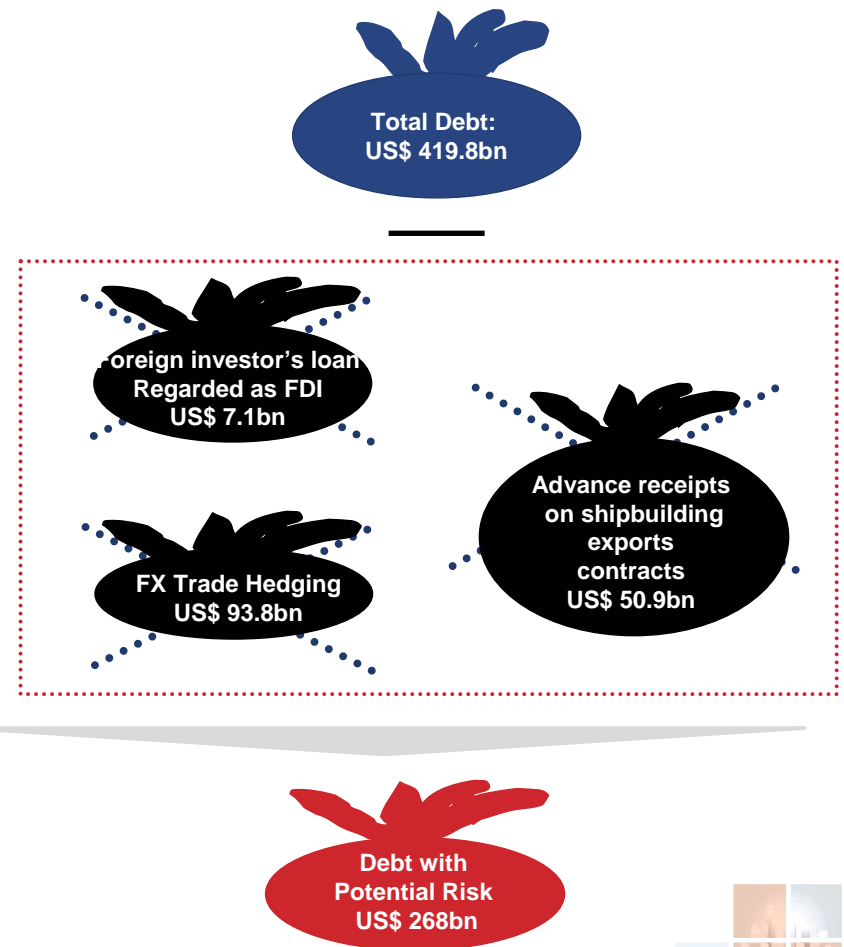
# #1 Moderate External Debt Level

Korea maintains a balanced external debt profile.

## Balanced Short and Long-term Debt



## Large Portion of FX Debt is Hedging

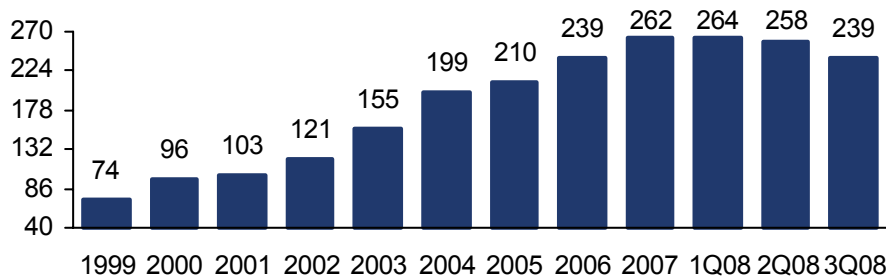


# #1 Highly Liquid Foreign Reserves

Korea has the 6th largest foreign reserves worldwide, comprised of highly liquid assets.

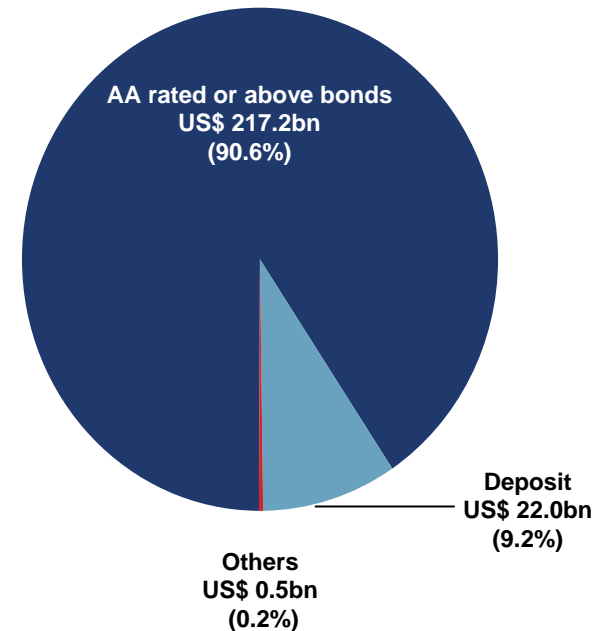
## Adequate Amount of Foreign Reserves

FX reserves (US\$ bn)



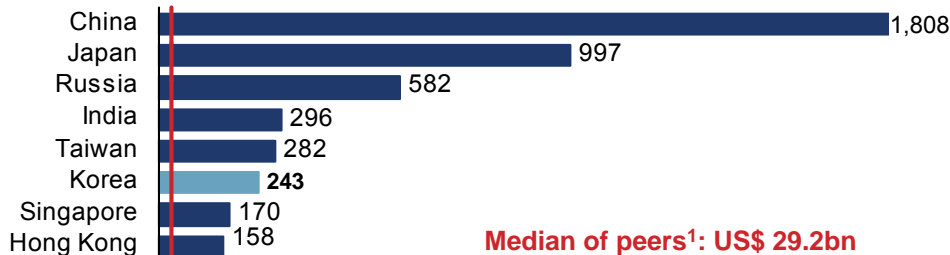
## Highly Liquid Foreign Reserves

Total reserves (US\$ bn)



## 6th Largest Reserves Globally (August 2008)

FX reserves (US\$ bn)



<sup>1</sup> Includes Hong Kong (AA+), Slovenia (AA), Portugal (AA-), Italy (A+), Chile (A+), Czech Republic (A) and Estonia (A). Credit ratings by S&P. Source: IMF.

Source: Bank of Korea



# Korean Banks' Healthy Liquidity

The government has paid careful attention to minimize risks from currency and duration mismatches.

## No Currency Mismatch Exists

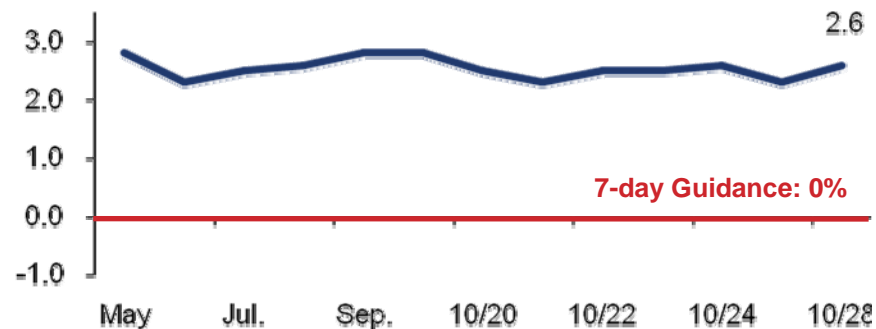
Foreign currency assets/liabilities - Korean banks  
(US\$ bn, as of Jun.08)

Assets	Amount	Liabilities	Amount
Forward exchange purchased (off B/S)	65.7	External debt	127.4
Foreign currency loans <sup>1)</sup>	45.5	Residential deposits in foreign currency	19.3
Trade bill discount operation	50.5	Foreign bank branches (swap)	23.0
Others	40.0	Foreigners' investment in bond <sup>2)</sup> (swap)	32.0
	201.7		201.7

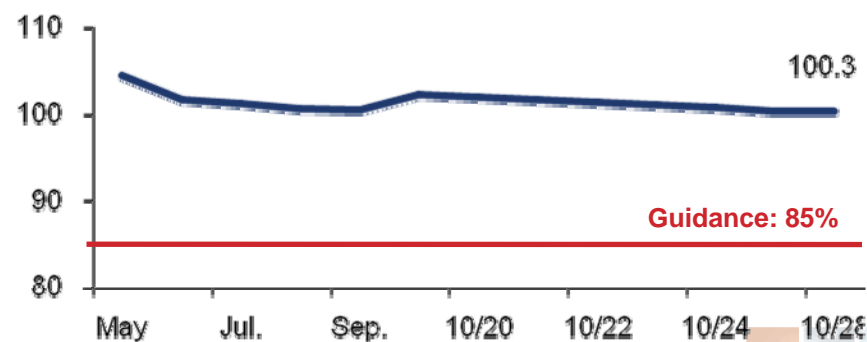
1) NPL : 0.3%    2) Estimates (not included in liabilities)

## High Liquidity Ratio: Low Risk from Duration Mismatch

7-day maturity mismatch ratio (%)



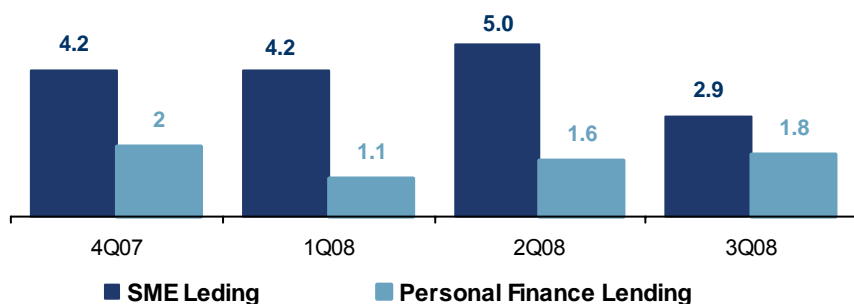
3-month foreign currency liquidity rate (%)



# #2 Sound Banking Sector

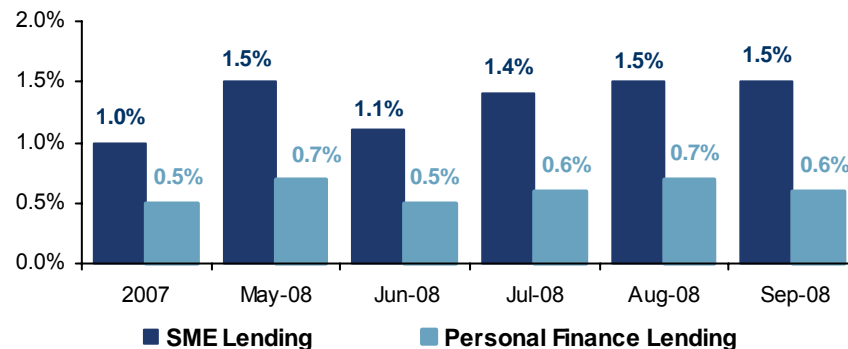
## Moderating Loan Growth

Loan Growth (%)



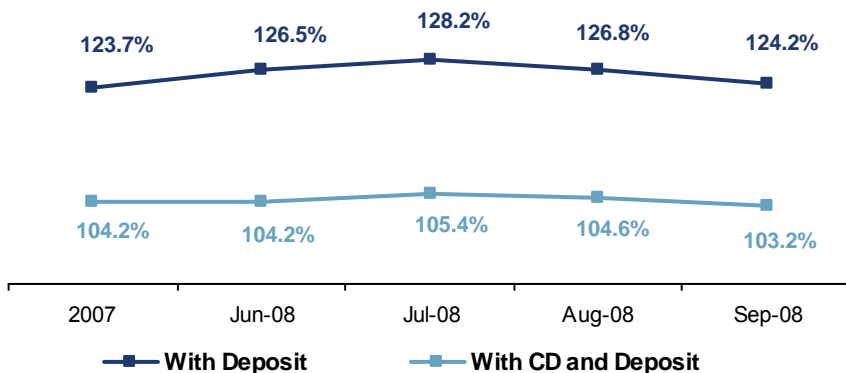
## Low Delinquency Ratio

Delinquency Ratio (%)



## Moderate Loan-to-Deposit Ratio

Loan-to-Deposit Ratio (%)



## Sufficient Room to Withstand Further Default Risks

- Sufficient buffer to absorb the impact of further default risk
  - Coverage ratio is approximately 186%
  - LTV ratio is approximately 47%
- Well-diversified lending exposure to various sectors
  - Manufacturing (35.2%), real estate (17.1%), private sector (14.3%), construction (9.7%)
- Stringent risk management systems implemented after Asian Financial Crisis

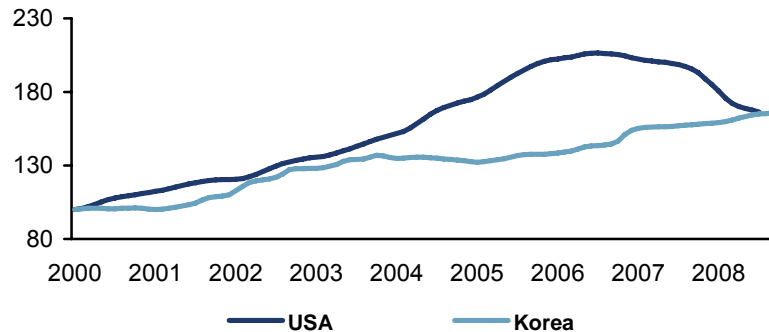


# #3 Robust Real Estate Sector

Historically, Korean real estate prices have lagged GDP growth, especially when compared to other markets. This balanced growth has been supported by prudent housing and mortgage ratios.

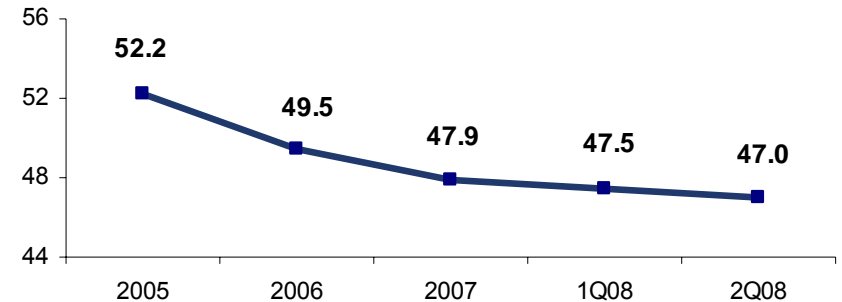
## Balanced Real Estate Price Growth

Housing Price Index



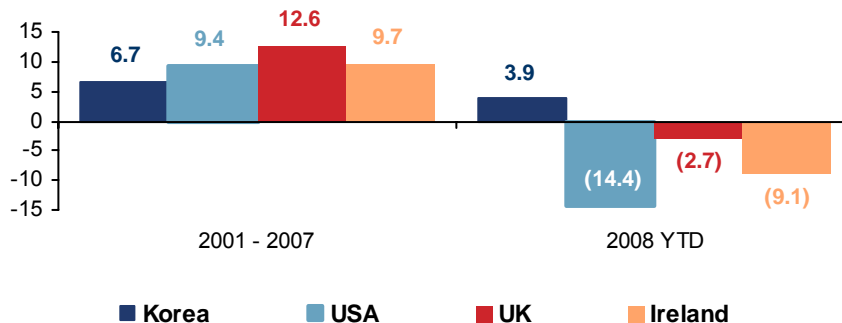
## Improving Mortgage Loan-to-Value Ratio

LTV ratio (%)



## Stable Housing Price Changes

Housing Price Changes (yoy, %)



## More Stringent Mortgage Regulations than Others

	Korea	U.S.	Hong Kong	Germany	Japan
Mortgage/GDP	33.4%	72.3%	37.3%	52.4%	36.2%
Regulation System	Direct	Indirect	Direct	Mixed	Indirect
LTV Limit	40~60%	None	60~70%	60% <sup>1</sup>	Indirect
DTI Limit	40%	None	60%	None	None

<sup>1</sup> Portion

# The Korean Government's Response



# Addressing Key Areas of Concern

To date, there has been minimal damage realized as a result of market turbulence. However, the Korean government has been highly preemptive in identifying and addressing potential risks.

## 1. PF Lending and Savings Banks

- The Financial Authority will monitor banks thoroughly to ensure that they comply enhanced requirements, including the 30% Rule and reserve accumulation
- Structure a system which incentivizes banks to restructure

## 2. SME Lending

- SME liquidity support measures announced on October 1<sup>st</sup>
- Run fast-track program until June 2009
- Support liquidity through debt maturity extension, minimal interest burden, and debt/equity swap incurred from KIKO into lending

## 3. Household Lending

- Measures to support household sector announced on October 21<sup>st</sup>
- Extend redemption maturity of conditional lending
- Accelerated deregulation of the housing sector
- Support credit recovery fund for ones with poor credit ratings

## 4. Construction Sector

- Support measures for Construction sector announced on October 1<sup>st</sup>
- Promotion and support of private real estate fund to purchase unsold houses
- Mortgage expansion for new housing inventory
- Financial support to construction companies
- Government purchase of land held by homebuilders

# Korea's Stabilization Package

## A comprehensive package to stabilize the financial system

The government will take decisive action to minimize downside risks to the economy.

- #1** *3 year guarantees of FX debt issuance up to US\$ 100bn*
- #2** *Additional dollar liquidity equivalent to US\$ 30bn to the banking sector by utilizing foreign exchange reserves*
- #3** *Provisions to support Won liquidity*
- #4** *Foreign exchange stabilization smoothing operation*
- #5** *Tax incentives for long-term holdings of funds*
- #6** *Undertaking for potential recapitalization of financial institutions and deposit guarantees, if necessary*
- #7** *Capital Injection of KRW 1trn into Industrial Bank of Korea, translating into additional loans worth KRW 12trn available to SMEs*
- #8** *The Bank of Korea cut the interest rate(75bp)*
- #9** *Opened currency swap line with US Fed*

**Strong Support for Financial System**

**Enhanced Foreign and Local Currency Liquidity**

**Coordinated Action with Other Governments**

**Ensure Credit Availability to SME's**



# Comparison with Asian Financial Crisis

**Korea's financial condition has improved vastly over the past ten years and the country is well-prepared to manage the current crisis**

	Asian Financial Crisis (late 1997)	Current	
<b>Causes</b>	Internal factors such as corporate bankruptcy	External factors	
<b>Foreign Exchange</b>	Foreign Currency Reserves	US\$ 8.9bn	US\$ 239.7bn <sup>1</sup>
	ST External Debt / FX Reserves	717%	68% <sup>2</sup>
	Liquid External Debt / FX Reserves	973%	86% <sup>2</sup>
	Total External Debt / FX Reserves	1,957%	173% <sup>2</sup>
<b>Banks</b>	Bank NPL Ratio	6.0%	0.6% <sup>3</sup>
	BIS Ratio	7.0%	12.0% <sup>4</sup>
<b>Corporates</b>	Corporate Debt Ratio	424.6%	106.5% <sup>4</sup>
	Corporate Interest Coverage Ratio	115.0%	404.8% <sup>4</sup>

<sup>1</sup> as of September 2008

<sup>2</sup> as of June 2008

<sup>3</sup> as of March 2008

<sup>4</sup> as of end of 2007



# ***Thank You***

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