



The Korean Economy: Resilience amid Turbulence

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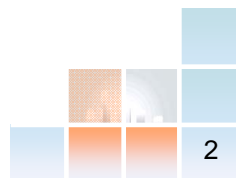
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1. Recent Macroeconomic Developments

2. Korea's External Position & Financial Strengths

3. Government's Policy Responses

4. Korea : Economic Outlook for 2009 envisioned by Korean Government



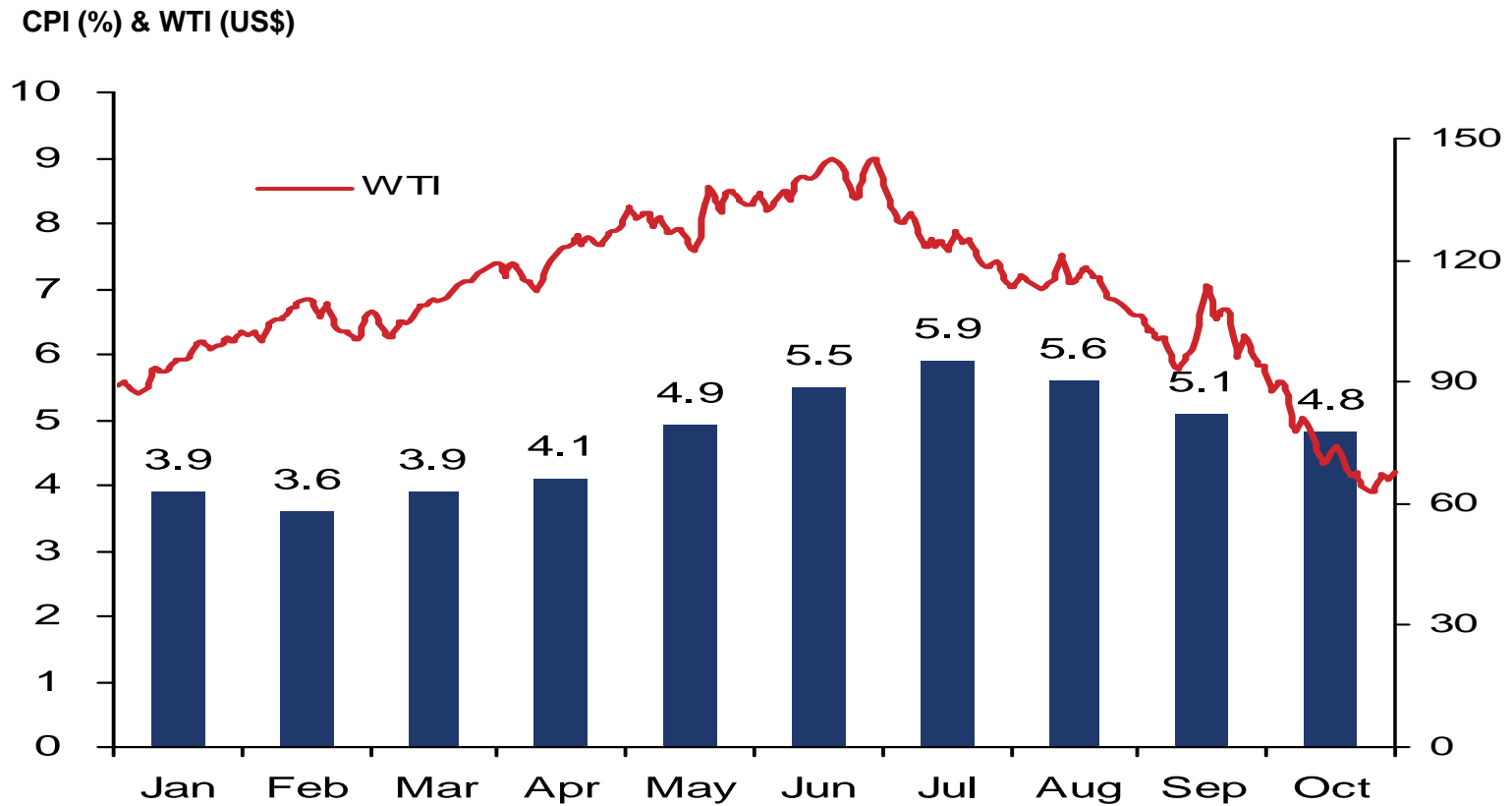
GDP Growth Trend : Gradual Slowdown

GDP Growth Trend (%)

	2005	2006	2007				2008			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	
GDP Growth (qoq, %)	4.2	5.1	5.0	4.0 (1.0)	4.9 (1.7)	5.1 (1.5)	5.7 1.6	5.8 (0.8)	4.8 (0.8)	3.9 (0.6)
Private Consumption	3.6	4.5	4.5	4.1	4.4	4.8	4.6	3.4	2.3	1.1
Facility Investment	5.7	7.8	7.6	10.9	11.0	2.3	6.5	1.4	0.7	4.9
Construction Investment	0.2	0.1	1.2	3.7	1.6	-0.1	-0.4	-1.1	-1.2	-0.9
Export	8.5	11.8	12.1	11.0	10.8	9.3	17.0	11.8	12.5	9.7
Import	7.3	11.3	11.9	11.4	12.1	6.9	16.9	9.0	8.6	8.9

Moderating Inflation

Downward trend in consumer price (2008 YTD)



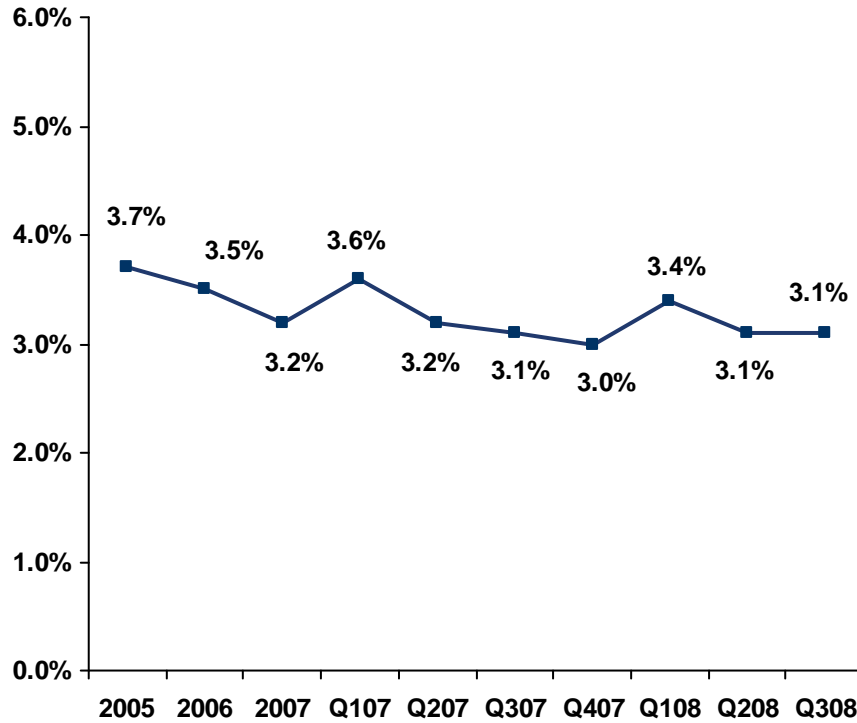
* CPI: Consumer Price Index
* WTI: West Texas Intermediate



Job Market Situation

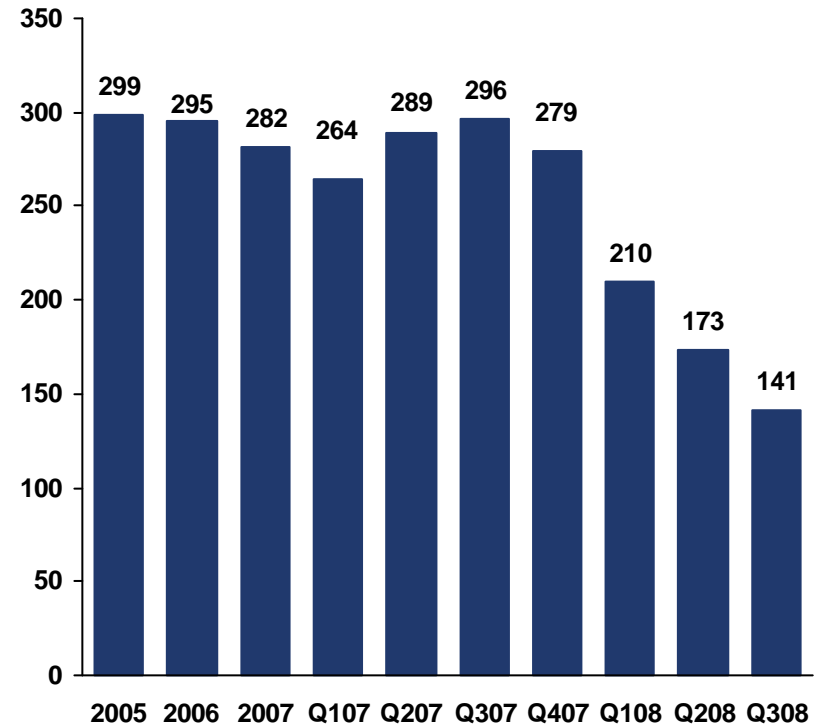
Unemployment Rate

Unemployment Rate (%)



Job Creation Trend

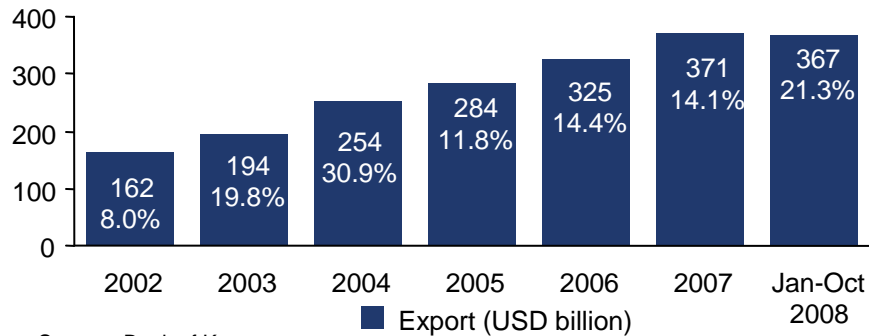
New Jobs Created (YoY, '000)



Trade and Current Account Balance

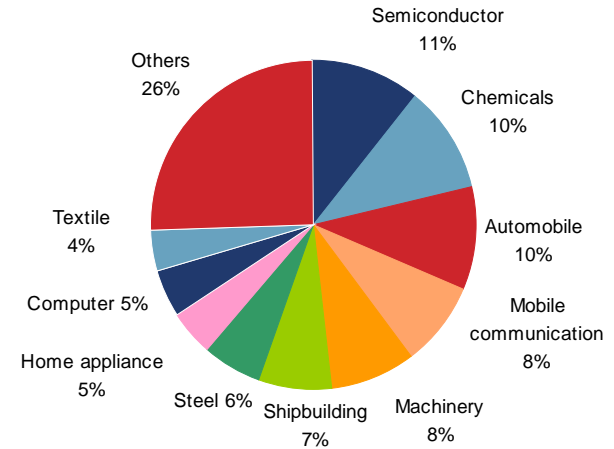
Robust export growth

Exports (US\$ bn, YoY Growth, %)



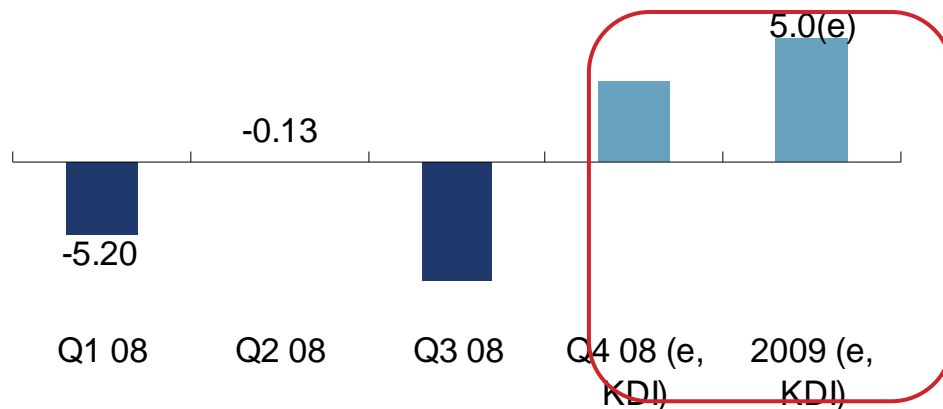
Source: Bank of Korea

Diversified export products

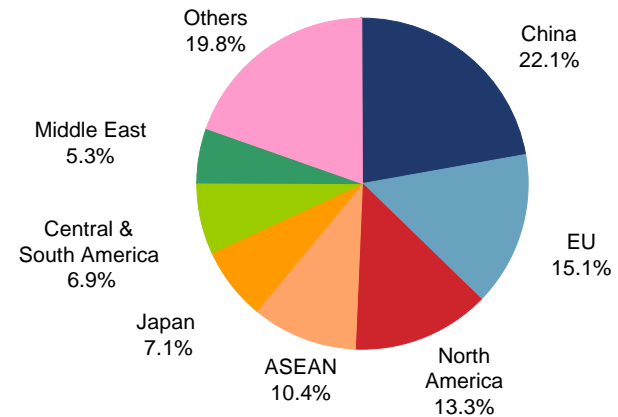


Current account surplus is expected in 4Q08

2008 Current account and Trade balance (US\$ bn)



Diversified export markets



Source: KITA (as of 2007)

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Foreign Reserves, Bank & Corporate Sector's Soundness

	Current	Asian Financial Crisis (late 1997) ¹	
Foreign Exchange	Foreign Currency Reserves	US\$ 212.3bn ²	US\$ 8.9bn
	ST External Debt ^a / FX Reserves	68% ³	717%
	Current External Debt ^b / FX reserves	86% ³	973%
	Total External Debt / FX Reserves	173% ³	1,957%
Banking Sector	Bank NPL Ratio	0.7% ³	6.0%
	BIS Ratio	11.6% ³	7.0%
Corporate Sector	Debt to Equity Ratio	106.5% ⁴	424.6%
	Interest Coverage Ratio	404.8% ⁴	115.0%

¹ as of end of 1997

² as of October 2008

³ as of June 2008, Basel I

⁴ as of end of 2007

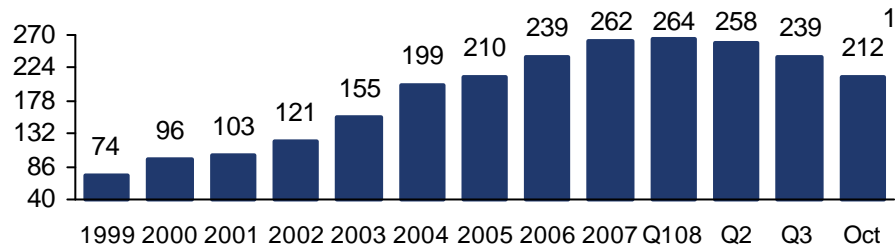
a. Short-Term Debt: Debt with original maturity shorter than 1 year

b. Current Debt: Debt with remaining maturity shorter than 1 year

Korea's Foreign Reserves

Total foreign exchange reserves

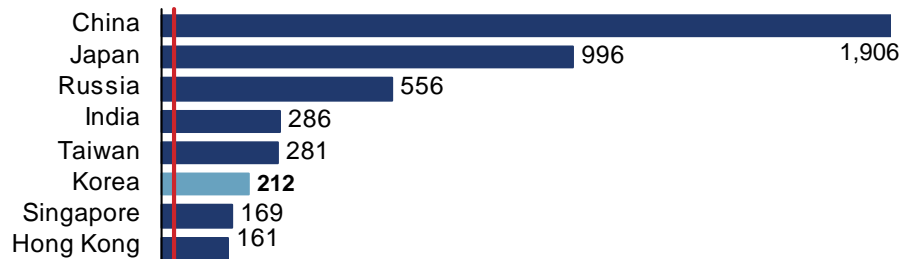
FX reserves (US\$ bn)



¹ Primarily due to government's provision of FX reserves to banking sector

Largest global reserve holders (October 2008)

FX reserves (US\$ bn)

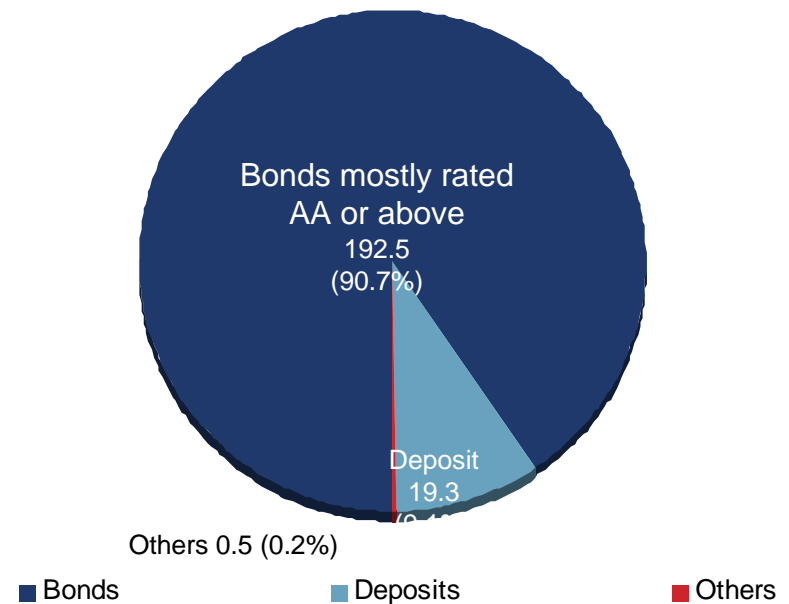


Median of peers¹: US\$ 29.2bn

¹ 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.

Are Korea's FX reserves liquid enough?

Total reserves (US\$ bn)

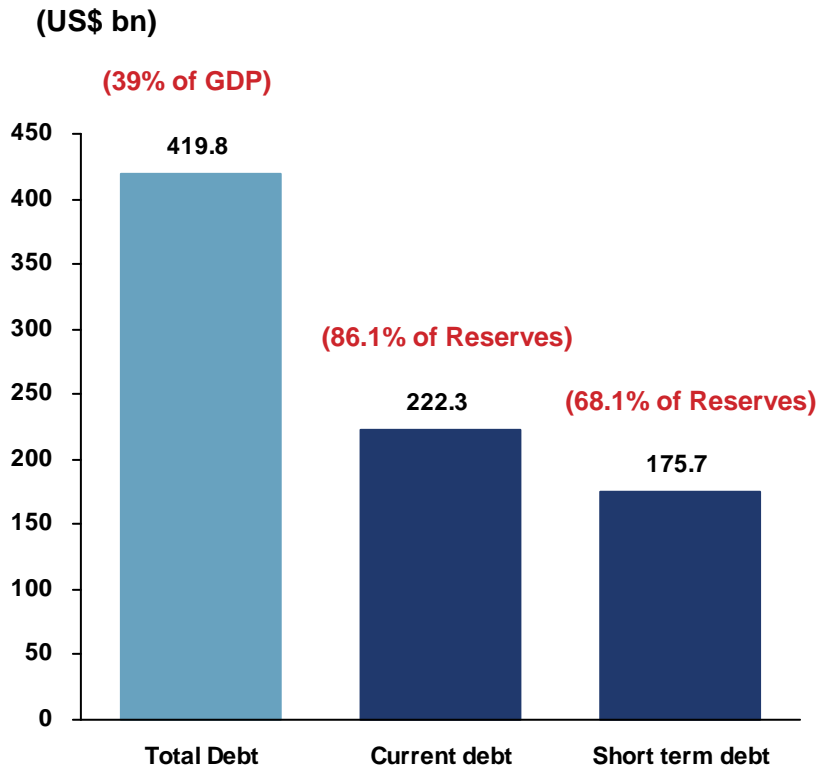


■ Bonds ■ Deposits ■ Others

Source: Bank of Korea

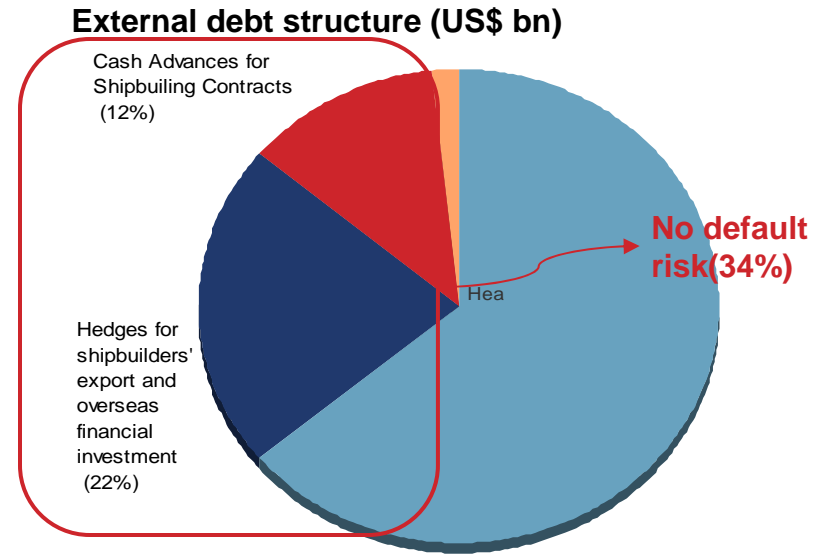
Korea's External Debt

Total External Debt and Short-term Debt

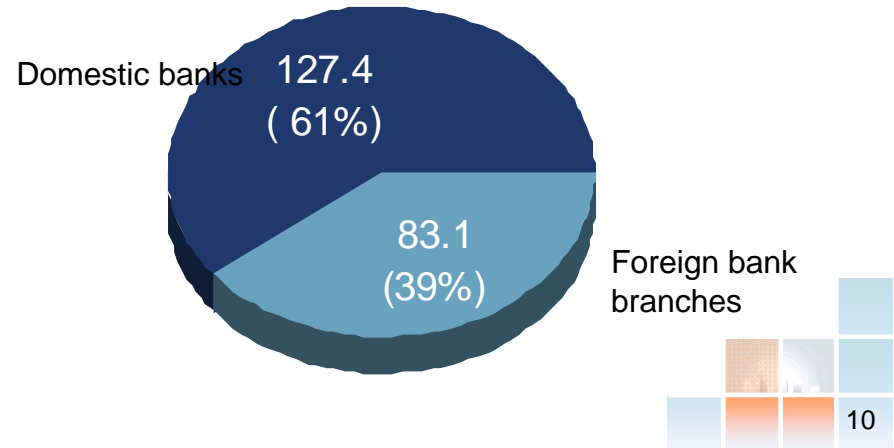


* Short-term debt: Debt with original maturity shorter than 1 year
 * Current debt: Debt with remaining maturity shorter than 1 year

Proportion of total debt without default risk



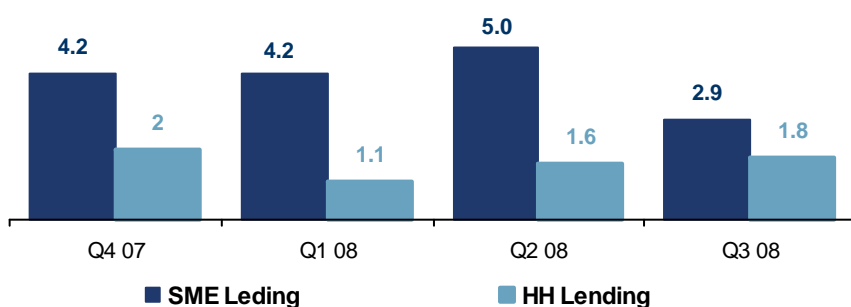
External debt owed by banks (US\$ bn)



Soundness of Banking Sector

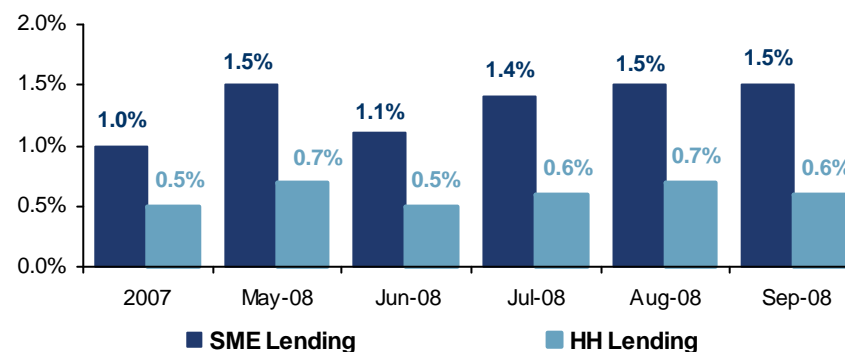
Moderating Loan Growth

Loan Growth (%)



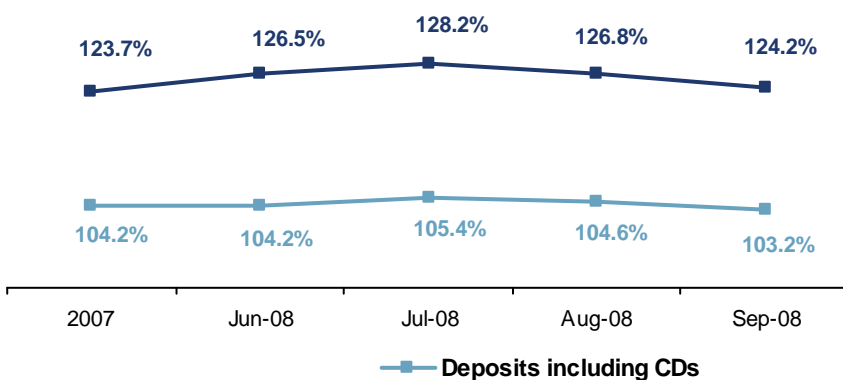
Low Delinquency Ratio

Delinquency Ratio (%)



Moderate Loan-to-Deposit Ratio

Loan-to-Deposit Ratio (%)

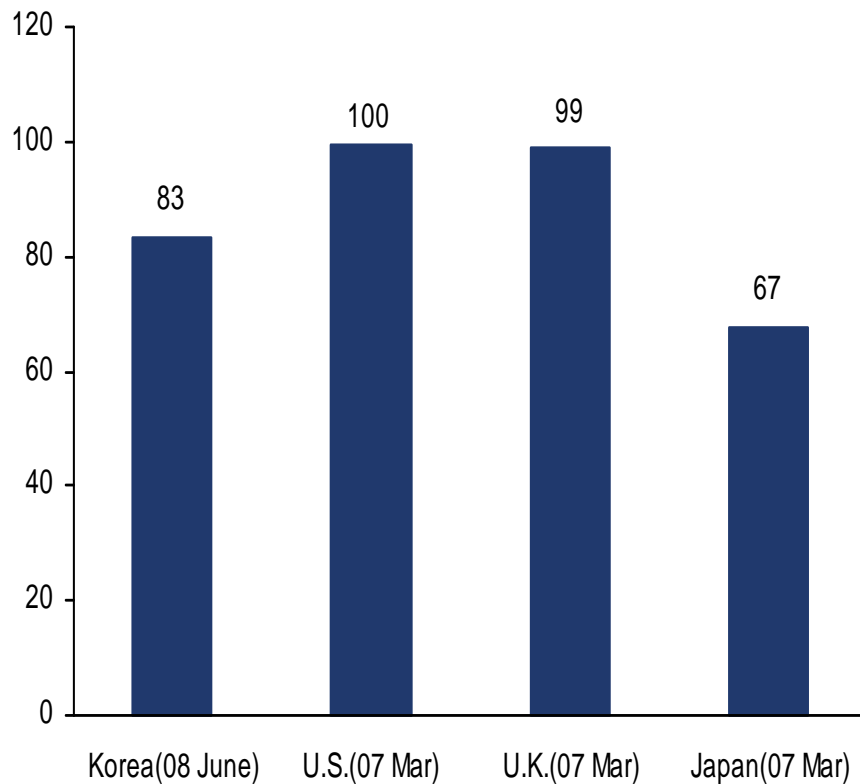


Sufficient Room to Withstand Default Risks

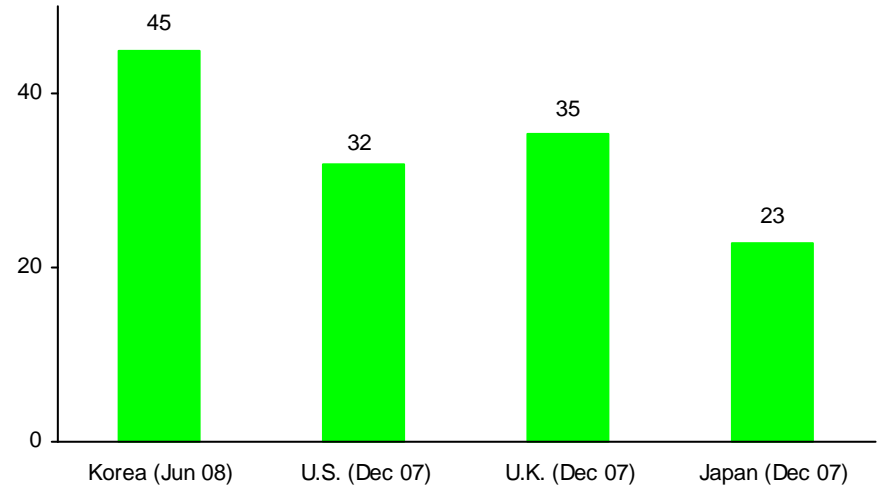
- Absorptive Capacity for the impact of default risk
 - Coverage ratio is approximately 186%
 - LTV ratio is approximately 47%
- Well-diversified lending
 - Manufacturing (35.2%), Real estate (17.1%), Wholesale and Retail (14.3%), Construction (9.7%)
- Stringent risk management system implemented after Asian Financial Crisis

Household Debt and Real Estate Bubble?

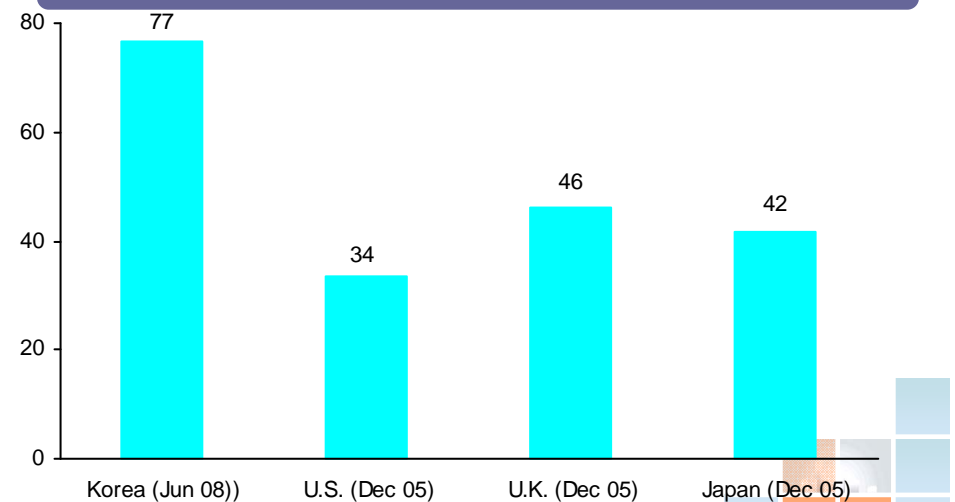
Household Debt to GDP Ratio (%)



Household Financial Debt to Financial Asset Ratio (%)



Real Estate to HH Asset Ratio (%)



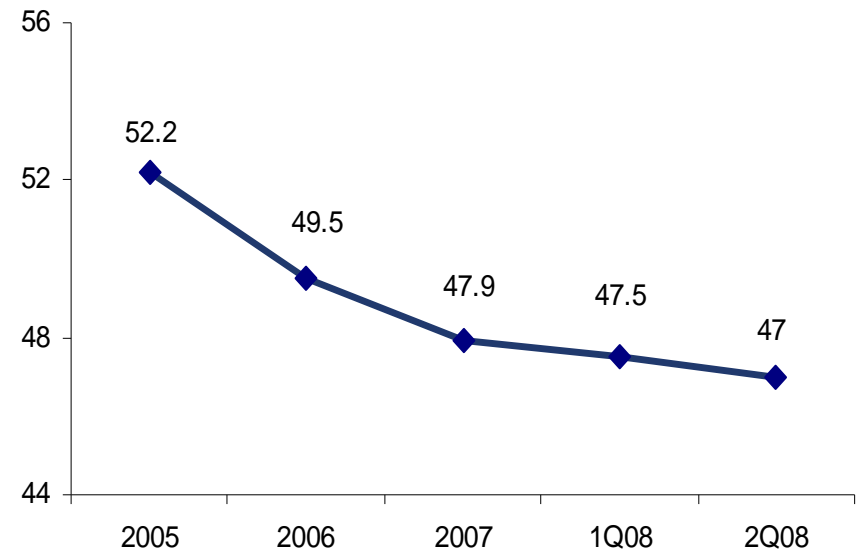
Household Debt and Real Estate Bubble (II)

Stricter regulation on mortgage than other countries

Improving loan to value ratio

	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%	-	60-70%	60% (Portion)	Indirect
DTI Limit	40%	-	60%	-	-

LTV ratio (%)



Source: Bank of Korea Financial Stability Report, April 2008

¹ Financial Surplus = Financial Asset Increase - Financial Liability Increase.

² Financial assets and liabilities exclude trade credits and other miscellaneous non-interest-bearing financial assets and debts.

Why then Some Negative Perceptions?

Two Main Reasons

(1) Korea's high openness

(a) High trade dependency (Export / Import as % of GDP, as of 2007)

Korea (38.7 / 37.2), US (8.4 / 14.6), Japan (16.3 / 14.2), China (37.5 / 29.4), UK (15.9 / 22.5), Germany (41.1 / 33.0), Spore (185.5 / 163.2), HK (166.4 / 177.7)

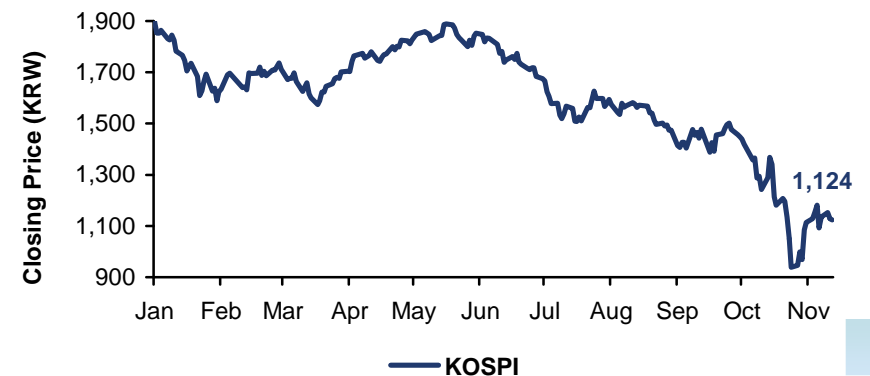
(b) Open capital market

- Foreign investors' share in Korea's KOSPI: 42% (2004) → 29% (Nov 2008)
cp) US (11.3%, Jun 07), Taiwan (30.9%, Oct 08), France (38.2%, Sep 07), Mexico (35.5%, Jun 08), UK (40.0%, end 06), OECD average (25%)

(2) Psychological factors

- The 1997-98 currency crisis and impact on investors' psychology

Performance of KOSPI (2008 YTD)



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Korea's Policies toward Financial Market Stability

#1 Foreign Currency Provision

- US\$ 45bn to the banking sector by utilizing FX reserves (since October)
- Fed-BOK Currency Swap (US\$ 30bn)
- Possible Expansion of Swaps with China and Japan
(Existing swap line: USD 4bn with China, USD 13bn with Japan)

#2 BOK's Liquidity Provision

- Through RP (KRW 7.5 trn)
and Bank Debenture (KRW 0.8 trn) purchase

#3 3 Year Guarantees of Bank's Foreign Borrowing up to US\$ 100bn

Fiscal stimulus package

◆ **Fiscal Stimulus Package: *Approximately KRW 33trn (US\$ 26bn, 3.7% of GDP)***

- *Expansion of public expenditure for investing in infrastructure and strengthening social safety net (KRW 15.6 trn)*
- *Reduction in personal income and corporate taxes (KRW 17.7trn)*

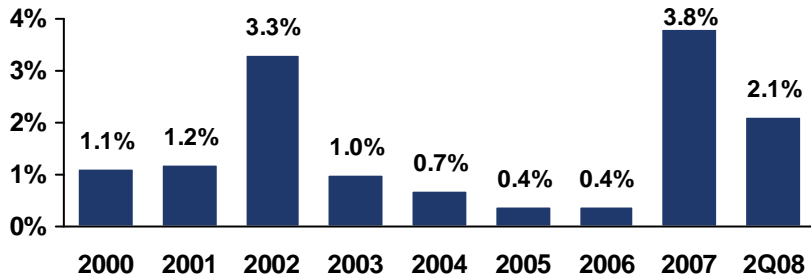
Fiscal Stimulus Packages

	Korea	U.S.	Japan	China
Amount	KRW 33 trn	USD 317 bn	JPY 6.7 trn	RMB 4 trn
GDP Ratio	3.7%	2.3%	1.2%	17.7% (over 3 yrs)

Korea's Strong Fiscal Strength enabling Further Stimulus

Trend of Korea's fiscal balance

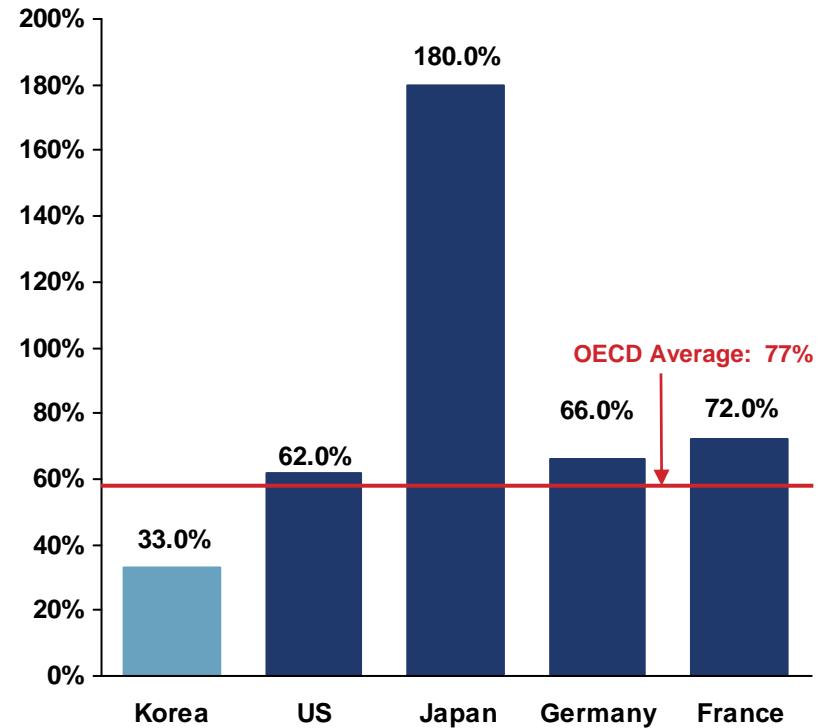
Consolidated fiscal balance (% of GDP)



Source: Ministry of Strategy and Finance

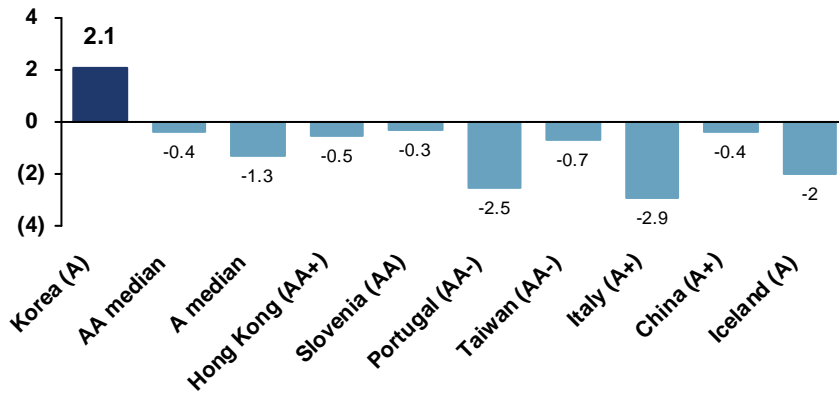
Relatively Low Debt Level

Government debt to GDP (%)



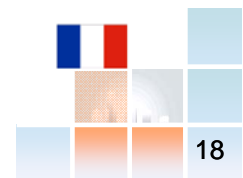
Comparison with other countries

Fiscal surplus (% of GDP)



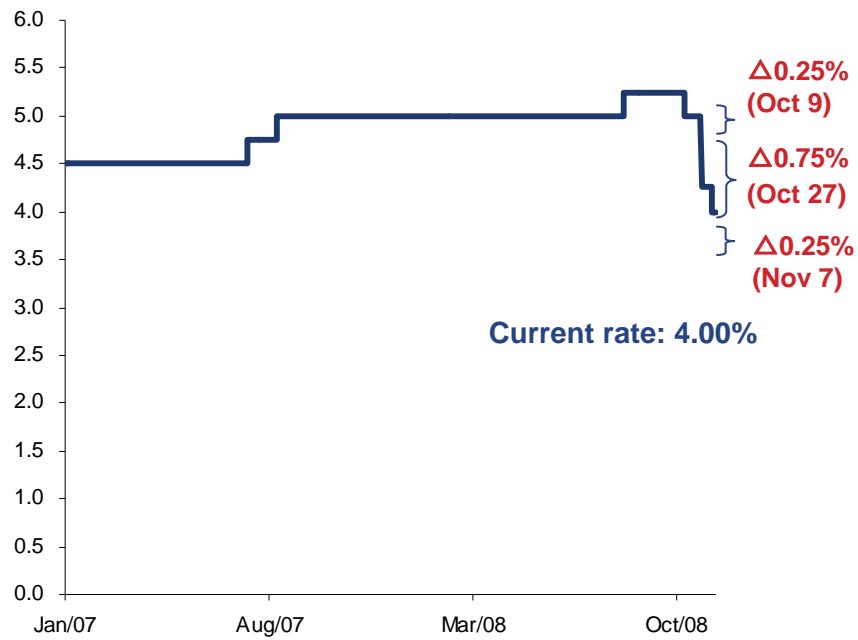
Source: S&P Sovereign Risk Indicator, July 2008

Source: OECD and IMF



Monetary Easing

BOK's Base Rate Trend (%)



Other Central Banks' Equivalent Rate

USA	1.0%
UK	3.0%
Japan	0.3%
ECB	3.75%
Canada	2.25%
China	6.66%

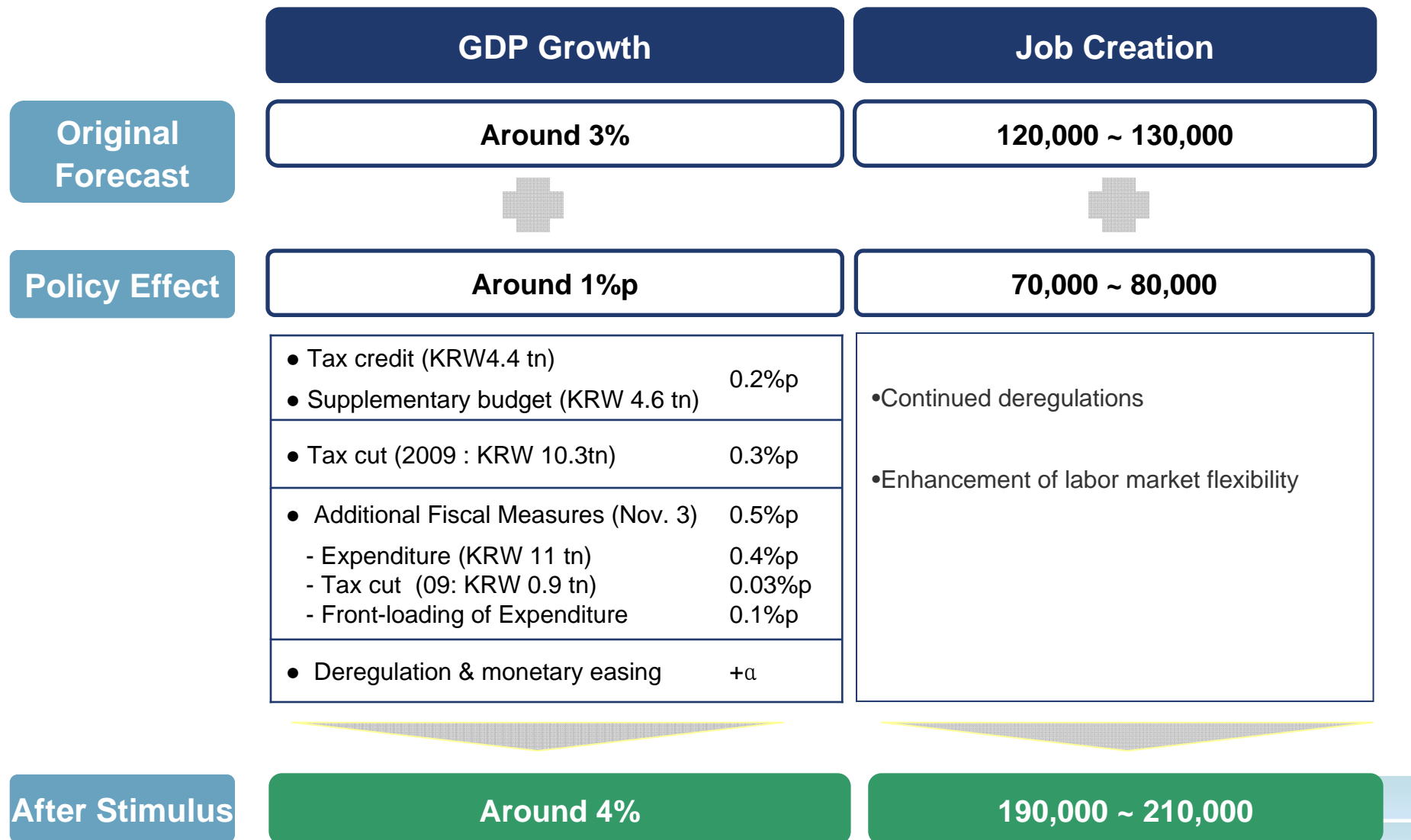
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Thank You

