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Proposed measures to overcome uncertainties in the international financial markets

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Source : Ministry of Strategy and Finance



1. Current Situation

Lehman's bankruptcy filing (September 14th) sparked a chain reaction that sent global credit markets into disarray. Concerns have been spread around the world that looming credit crunch and slowdown of the real economy may be protracted. Finding a solution out of the global credit crunch and economic uncertainties of the global economy will take quite some time.

Consequently, the governments of major economies have made efforts to coordinate their policy responses to the crisis and have introduced unprecedented and strong market stabilization measures.

Despite the recent credit crisis, Korea's real economy and its financial sector are sound. Exports show a steady growth and conditions of the banking sector remain healthy. By various international standards, Korea's foreign exchange reserves are sufficient.

2. Proposed policy responses

As other major economies start providing guarantees to inter-bank loans, the Korean government will take similar measures to avoid placing domestic banks at a comparative disadvantage in terms of overseas funding and to allay fears in the financial market. The government will pursue market stabilization policies in a preemptive, decisive and sufficient manner to minimize the total cost of implementing the proposed measures.

(1) The Korean government will provide guarantees to Korean banks' external debt after securing approval of the National Assembly. When Korean banks or its overseas branches take upon external debt from October 20th this year to June 30th, 2009, the government will offer guarantees to the debt for 3 years. Initially, Korea Development Bank or Korea Eximbank will provide guarantees starting from October 20th until the government wins approval of the National Assembly. After securing the approval, the government will take over the task of providing guarantees, including those already offered by KDB or Korea Eximbank.

* The total value of guarantees will be capped at USD 100 billion. Domestic banks' external debt reaching maturity until the end of June, 2009 is estimated to be around USD 80 billion.

(2) The government and the Bank of Korea will further provide additional dollar liquidity, amounting to USD 30 billion, to the banking sector by utilizing foreign exchange reserves.

(3) The Bank of Korea will provide adequate Korean Won liquidity into domestic financial markets by purchase of RPs, buying government bonds and early redemption of monetary stabilization bonds. These measures will help soothe uncertainty of the financial market.

(4) The authorities will make efforts to maintain stability in the foreign exchange market through the smoothing operation to avoid extreme volatilities.

(5) The government will provide tax incentives for long-term holdings of funds. This will help strengthen stability of the stock market and asset management companies.

(6) At the moment, it seems that recapitalization of financial institutions or expansion of deposit guarantees are not necessary.



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However, should the need arise to pursue such measures, the government will take proper actions.

(7) As part of an effort to boost international cooperation, the Korean Government will not only promote multinational collaboration among G-20 countries but also reinforce the regional ties centering on Korea, China and Japan. More specifically, the Korean government will make efforts to expand bilateral currency swap schemes to G-20 countries and to finalize detailed plans to multilateralize the Chiang Mai Initiative by the end of 2009.

(8) The government will make an investment in kind, equivalent to Korean Won 1 trillion, expanding the capital base of the Industrial Bank of Korea. The expanded capital base is likely to translate into additional loan facility worth Won 12 trillion available to small and mid-sized companies.

Finally, the government will make efforts to have the tax cut package and the draft budget package pass the National Assembly and minimize the impact of the turmoil of the international financial market on Korea's real economy.

Minister of Strategy and Finance
Chairman of Financial Services Commission
Governor of Bank of Korea



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