



**Volume II No. 5**

**February 17, 2001**



# **Weekly Newsletter**

**Focus of the Week :**

**▲ Review of Financial Market Trends & Measures**

**Major Financial Issues from Feb. 8 to Feb. 14, 2001**

**▲ Securities Companies Prepare Back-up Systems**

**▲ Foreign Portfolio Investment Rises in January**

**(Appendix) 1. Major Financial Statistics  
2. Daily Trends**

## Review of Financial Market Trends & Measures

**A**t a financial policy coordination meeting convened on February 10, the deputy minister of the Ministry of Finance and Economy (MOFE), vice chairman of the Financial Supervisory Commission (FSC), and the deputy governor of the Bank of Korea (BOK) reviewed and discussed recent developments in financial markets as well as the effectiveness of measures implemented to facilitate corporate financing.

### Financial Market Trends

#### Interest rates

The yield on the benchmark government bond stood at 5.18% as of Feb. 9, which is down 50 basis points from the end of January. The fall in government bond yields led to a decline in the yields on corporate bonds, with good credit rating. The declining yields are attributed to a recent interest rate cut by the BOK, which was made in response to looming prospects of an extended economic slowdown and a flight to quality in asset-holding.

#### Trends of Key Interest Rates

(unit: %, %p)

	2000			2001		B-A
	Oct.	Nov.	Dec.	Jan.(A)	Feb. 9(B)	
Gov't Bond (3 years)	7.64	7.16	6.70	5.68	5.18	-0.50
Corp. Bond (3 years)	8.59	8.35	8.13	7.38	6.75	-0.63
Monetary Stabilization Bond (1 year)	7.06	7.02	6.83	5.71	5.42	-0.29
Yields Spread <sup>2)</sup>	0.95	1.19	1.43	1.70	1.57	-0.13

Note : 1) End of period

2) spread between government bonds and corporate bonds with "AA" grade

As the spreads between risk-free bonds and corporate bonds have narrowed, concerns over corporate credit risks appear to have begun to alleviate. Meanwhile, deposit and lending rates at commercial banks also decreased by 50 basis points.

### Flow of Funds

As banks lowered their deposit rates, ITMCs saw a substantial increase in their sales of beneficiary certificates, with money market funds (MMF)s accounting for the bulk of activity. As a result, the concentration of funds on deposit at banking accounts appears to have become diluted.

### Net Flow of Deposits Trends by Financial Sector

(unit: billion won)

	2000				2001	
	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.1-5
Banks						
- Banking Accounts	3,642.4	6,545.7	8,090.7	6,181.1	199.6	1,071.1
- Trust Accounts	-2,515.9	-3,146.1	-2,502.4	-4,902.6	-61.9	800.0
ITMCs	2,031.7	-2,293.4	-696.9	-7,335.5	7,433.6	2,461.1
(MMF)	(-1,657.1)	(-1,495.3)	(313.7)	(-5,244.1)	(9,730.7)	(1,344.3)
Merchant Banks	420.6	-428.0	-335.8	-2,855.2	1,557.7	-305.1

Note: during the period

### Corporate Financing

Since January, funding conditions have steadily improved, due largely to the following factors.

First, net bank lending to the corporate sector rebounded to the positive from negative levels.

Secondly, the net issuance of corporate bonds has continuously increased since January,

when net issuance returned to positive levels for the first time since October 2000. Moreover, the roll-over ratio of corporate bonds carrying a 'BBB' grade increased to 60.4%, up from 20.0% in December 2000.

Thirdly, the net issuance of CPs in January totaled 6.5 trillion won, marking a sharp turnaround from a net repayment of 5.3 trillion won in December 2000.

### Direct Corporate Financing Trends

(unit: billion won, %)

	2000				2001	
	Sept.	Oct.	Nov.	Dec.	Jan.	Feb. 1-8
Corporate bonds(net)	442.5	747.4	-671.6	-4,760.3	442.9	577.8
(Roll-over ratio of BBB grade)	53.0	21.4	7.9	20.0	60.4	NA
CP (net)	-396.3	1,247.5	-836.7	-5,294.7	6,498.2	NA

Note: during the period

### Assessment of Implemented Measures and Future Directions

At the financial policy coordination meeting, the restoration of stability in domestic financial markets was mainly attributed for the successful implementation of recent support measures. However, in order to ensure lasting stability in financial markets, it was agreed that the government must not only implement measures to facilitate greater corporate financing, but should also accelerate the ongoing restructuring of the domestic financial and corporate sectors, which would ultimately alleviate concerns over credit risks. Furthermore, the government should also look to continue stabilizing the real economy and financial markets by maintaining economic policies flexible.

#### Implemented Measures

In a pre-emptive attempt to stabilize the real economy and financial markets ahead of an anticipated downturn, the BOK recently lowered its target for the overnight call rate by 25 basis points to 5.0%.



With regard to the domestic banking sector, the required BIS capital adequacy ratio has been lowered from 10% to 8%, which is aimed at further improving the balance sheets of local banks.

To alleviate rising worries and prevent the paralysis of the local corporate bond market in general, the Korea Development Bank (KDB) purchased corporate bonds worth 750 billion won for refinancing in January, and plans to make additional purchases to support corporate restructuring programs.

Recent clarification of their exemption criteria has greatly increased the accountability of loan officers at financial institutions. By holding loan officers more accountable, the new rules have enhanced the quality and quantity of support extended by financial institutions to the corporate sector. Moreover, in the management evaluations of financial institutions, the earnings element will now be given greater weighting to help determine whether or not prompt corrective action (PCA) measures should be enforced against the institution.

Finally, the credit guarantee system, which plans to provide up to 54 trillion won in credit guarantees this year, is being overhauled in an effort to limit systemic risks and ensure its equitable and efficient operation.

### **Future Directions**

With regard to future policy directions, it was agreed that the government should look to facilitate rising inflows into the ITMC and non-banking sectors, and declining interest rates on deposits in banking accounts by maintaining yields on benchmark government bonds stable.

To support the roll-over issuance of corporate bonds, the KDB plans to purchase an additional 500 billion won worth of corporate bonds in February. Meanwhile, issues of 2.5 trillion won worth of primary CBOs, which are used mainly for refinancing in the corporate sector and include the corporate bonds purchased by the KDB, are also planned during February. Issuance of primary CBOs prior to February has already amounted to 7.3 trillion won.



And to increase long-term demand in local stock markets, major pension funds are expected to increase their annual stock investments within 2 to 3 years. Furthermore, an investment pool system will be introduced to help specialized asset management firms increase the profitability of funds formed through the consolidation of smaller-sized pension funds.

## Securities Companies Prepare Back-up Systems

**D**omestic securities companies unveiled their respective plans and timetables for the implementation of back-up systems in form of mirror-sites, which are designed to prevent data loss or temporary stoppages of trading that occur due to electronic incidents. The need for back-up systems has increased dramatically amid the explosive growth of on-line securities trading in Korea, and the move is expected to substantially increase levels of investor protection.

Twenty-one securities companies have finalized plans for the establishment of back-up systems, while eleven companies are still in the process. Fifteen other companies plan to devise and implement the system by the end of 2001.

The FSS plans to make back-up systems mandatory at all securities companies in the first quarter of 2001.

## Foreign Portfolio Investment Rises in January

**I**n January, foreign investors were bullish on the Seoul bourse and ended the month as net purchasers of stocks worth 2.7 trillion won on the Korea Stock Exchange (KSE).

At the KSE, foreign investors purchased stocks worth a total 6.5 trillion won and sold stocks totaling 3.8 trillion won. The market value of foreign investors' shareholdings

increased to 73.7 trillion won and their total market share increased to 30.4%, up 0.3 percentage points from the end of the previous month.

In the KOSDAQ market, foreign investors purchased stocks worth a total 743.8 billion won and sold stocks worth 513.9 billion won, making them net purchasers of stocks worth 229.9 billion won. The market value of foreign shareholdings rose to 3.9 trillion won, and total market share of foreign investors increased to 8.3%, up 1.3 percentage points from the end of the previous month.

### Foreign Investment in KSE/KOSDAQ

(unit : billion won)

	KSE		KOSDAQ	
	Net Purchases <sup>1)</sup>	Total Market Value of Stock Holdings <sup>2)</sup>	Net Purchases <sup>1)</sup>	Total Market Value of Stock Holdings <sup>2)</sup>
<b>1999. 12</b>	-	76,590.5 (21.9%)	-	7,964.2 (8.1%)
<b>2000. 1</b>	1,259.3	76,891.1 (23.1%)	237.5	5,340.0 (8.2%)
<b>2000. 8</b>	1,333.8	75,229.7 (30.1%)	74.0	3,901.7 (7.2%)
<b>2000. 9</b>	-1,005.7	64,905.5 (29.0%)	51.4	3,523.8 (7.5%)
<b>2000. 10</b>	-376.9	54,405.6 (28.2%)	49.2	2,973.3 (7.5%)
<b>2000. 11</b>	625.2	56,736.3 (29.7%)	47.8	2,562.4 (7.0%)
<b>2000. 12</b>	452.1	56,558.5 (30.1%)	38.1	2,033.5 (7.0%)
<b>2001. 1</b>	2,733.7	73,669.9 (30.4%)	229.9	3,865.4 (8.3%)

Note: 1) During the period 2) Outstanding at the end of period  
 Figures in parenthesis denote the percentage of total stock holdings.

In the domestic bond market, foreign investors were net sellers of 0.1 billion won worth of bonds in January, reducing total bond holdings to 589.5 billion won. Accordingly, their total market share fell to 0.14%, down 0.02 percentage points from the previous month. Special purpose bonds, including Monetary Stabilization Bonds and Industrial Financial Debentures, accounted for 52.8% of foreign investors' total bond holdings, while corporate bonds accounted for 29.9%.



### Foreign Investment in Bonds

(unit : billion won)

	<b>Net Purchases<sup>1)</sup></b>	<b>Value of Bond Holdings<sup>2)</sup></b>
<b>2000. 1</b>	383.7	1,503.2 (0.4%)
<b>2000. 8</b>	-187.4	1,038.5 (0.3%)
<b>2000. 9</b>	3.0	1,015.3 (0.3%)
<b>2000. 10</b>	- 169.8	822.8 (0.2%)
<b>2000. 11</b>	4.9	712.5 (0.17%)
<b>2000. 12</b>	- 8.4	692.1 (0.16%)
<b>2001. 1</b>	- 0.1	589.5 (0.14%)

Note: 1) During the period 2) Outstanding at the end of period

Figures in parenthesis denote the percentage of total bond holdings.



(Appendix)

1. Major Financial Statistics

(unit: point, percent, won)

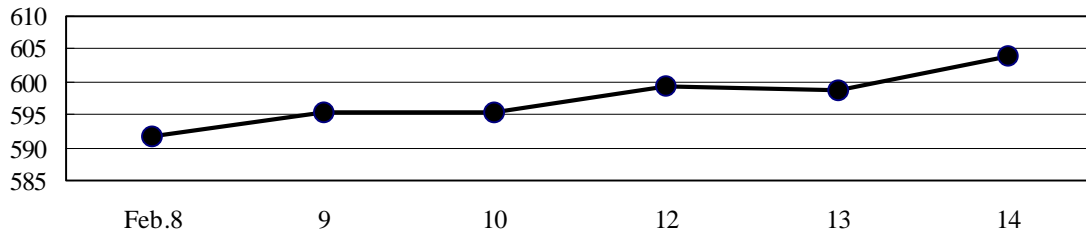
	Equity Indexes			Interest Rates				Exchange Rates	
	KOSPI Index	KOSPI 200 Index	KOSDAQ Index	Corp. Bond Yields (3 years)	Gov't Bond Yields (3 years)	Call Rate (1day)	CD Yields (91days)	Won/USD	Won/100 JPY
2000 July	705.97	89.35	115.80	9.17	8.07	5.12	7.06	1,116.0	1,018.25
Aug.	688.62	86.54	108.59	8.98	7.79	5.11	7.05	1,109.0	1,042.10
Sept.	613.22	76.47	90.17	9.04	8.07	5.05	7.05	1,115.0	1,030.88
Oct.	514.48	64.00	74.68	8.59	7.64	5.33	7.02	1,139.0	1,045.91
Nov.	509.23	63.48	67.26	8.35	7.16	5.32	6.94	1,213.5	1,092.26
Dec.	504.62	63.35	52.28	8.14	6.74	5.36	6.88	1,261.0	1,101.31
2001 Jan.	617.91	77.98	84.36	7.38	5.68	5.26	5.94	1,258.0	1,080.29
Feb.8	591.57	74.50	79.80	6.83	5.25	5.05	5.80	1,264.0	1,087.31
9	595.47	74.91	80.73	6.75	5.18	5.00	5.78	1,259.0	1,079.48
10	-	-	-	6.75	5.18	5.09	5.77	1,266.0	1,076.71
12	599.20	75.40	83.11	6.58	5.00	5.08	5.75	1,263.0	1,071.70
13	598.78	75.28	84.08	6.49	5.06	5.04	5.73	1,256.0	1,070.30
14	603.83	75.90	85.31	6.49	5.19	5.03	5.69	1,252.0	1,072.38

Note : End of Period

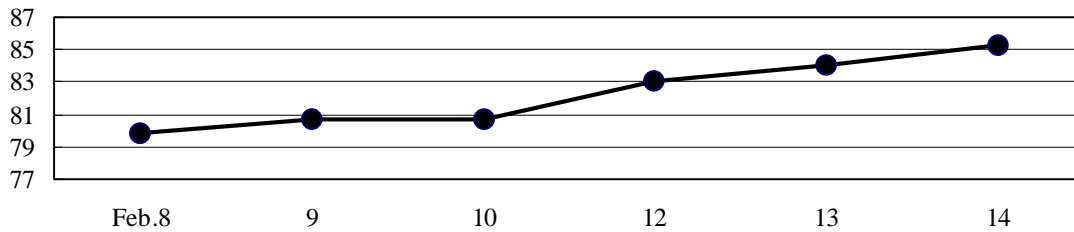


## 2. Daily Trends

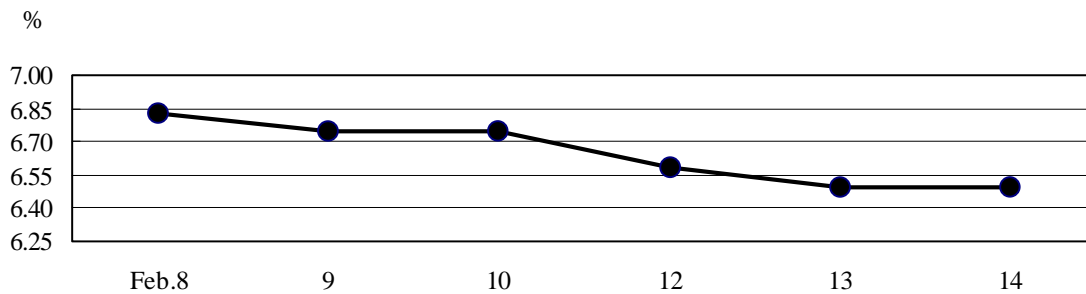
### 1) KOSPI



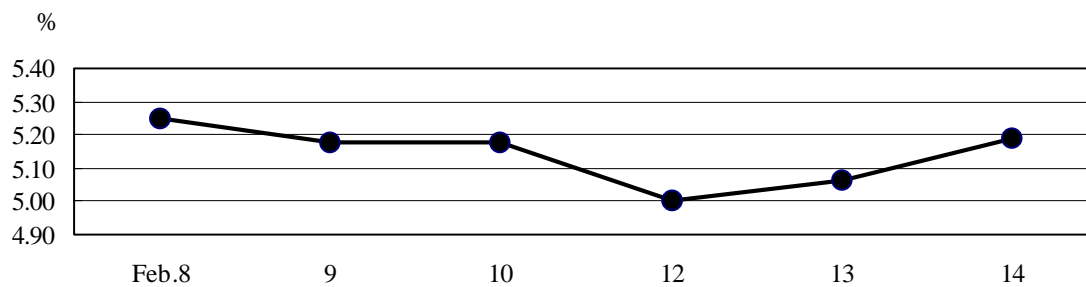
### 2) KOSDAQ Index



### 3) Yields on Corporate Bond Yields (3 Years)

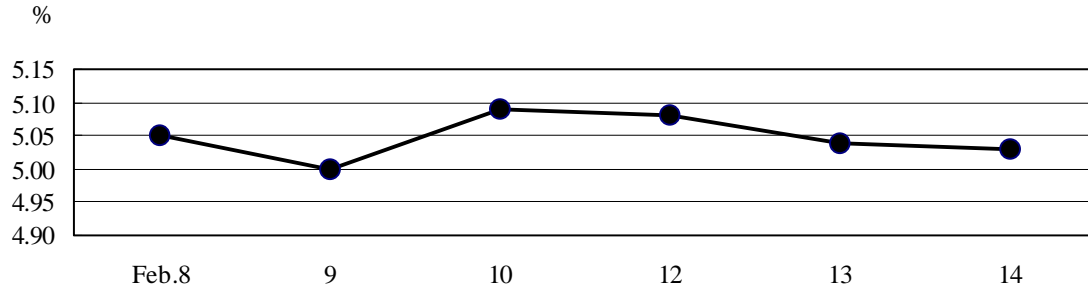


### 4) Yields on Government Bond (3 Years)

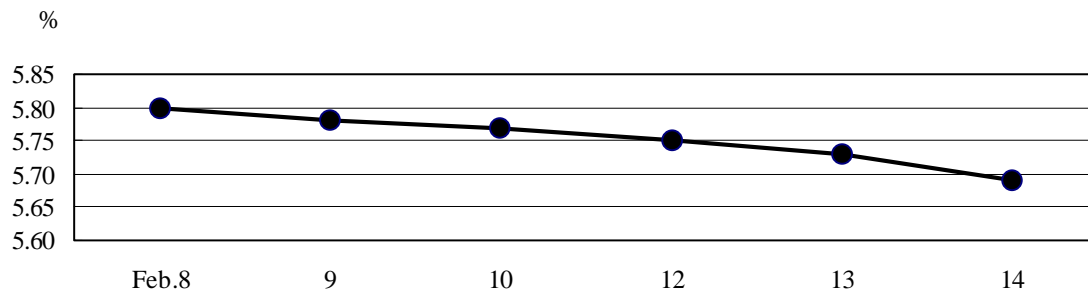




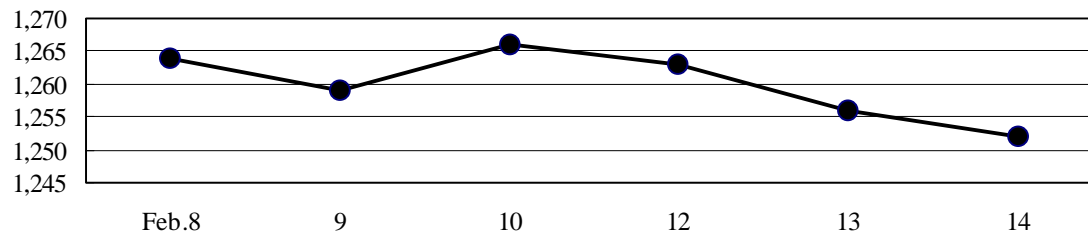
### 5) Call Rate (1 Day)



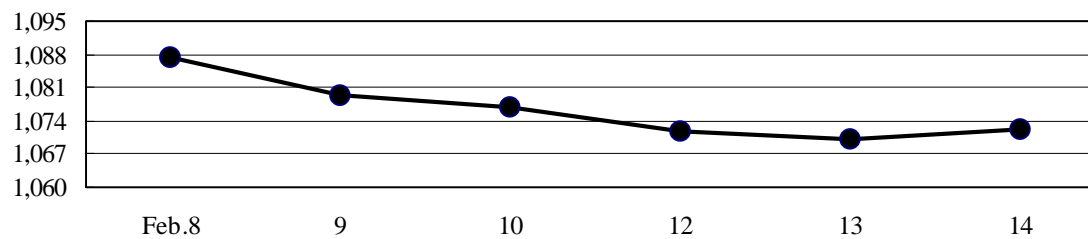
### 6) Yields on CD Rate (91Days)



### 7) Won/US Dollar



### 8) Won/100 Japanese Yen





## **Financial Supervisory Service**

---

### **Main Office**

27, Yoido-dong, Youngdeungpo-gu, Seoul 150-743, Korea  
Tel: 82-2-3771-5114 Fax : 82-2-3771-5985  
[Http://www.fss.or.kr](http://www.fss.or.kr)

### **Overseas Offices**

#### **New York**

14<sup>th</sup> floor, 780 Third Avenue New York, NY 10017 U.S.A  
Tel : 1-212-350-9388 Fax : 1-212-350-9392  
E-mail : [newyork@fss.or.kr](mailto:newyork@fss.or.kr)

#### **London**

3<sup>rd</sup>. Floor 1, Minster Court, Mincing Lane, London EC3R 7AA, U.K  
Tel : 44-207-621-8490 Fax: 44-207-929-1677  
E-mail : [london@fss.or.kr](mailto:london@fss.or.kr)

#### **\* Frankfurt Resident**

Messturm 28. OG. Friedrich-Ebert-Anlage 49, 60308 Frankfurt am Main, Germany  
Tel : 49-69-7434-8722 Fax: 49-69-7434-8729  
E-mail : [frankfurt@fss.or.kr](mailto:frankfurt@fss.or.kr)

#### **Tokyo**

Yurakucho Denki Bldg. South Kan 1051, 7-1, Yurakucho 1-Chome, Chiyoda-ku, Tokyo,  
Japan  
Tel : 81-3-5224-3737 Fax : 81-3-5224-3739  
E-mail : [tokyo@fss.or.kr](mailto:tokyo@fss.or.kr)

#### **\* Hong Kong Resident**

Rm 1208-9, Alexandra House 20 Charter Road, Central, Hong Kong  
Tel : 852-2526-6508 Fax: 852-2868-5276  
E-mail : [hongkong@fss.or.kr](mailto:hongkong@fss.or.kr)

**If you have any questions, suggestions, and/or comments, please feel free to contact the International Cooperation Office at (82-2) 3771-5975, fax (82-2) 3771-5985, or e-mail us at [soykim@fss.or.kr](mailto:soykim@fss.or.kr)**

