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Move Aims to Boost Market, Currency

By Blaine Harden
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TOKYO, Oct. 20 -- To shore up a tumbling stock market and a troubled currency, South Korea announced Sunday that it would guarantee $100 billion in foreign debt and supply $30 billion to banks and exporters in urgent need of dollars.

Amid a global financial crisis, South Korea has emerged as among the most vulnerable major economies in Asia, despite plenty of foreign reserves in its central bank and booming exports to China, India and the Middle East.

The credit-rating agency Standard & Poor's placed five major South Korean banks on a watch list last week, citing their problems in finding dollars to repay foreign currency loans. President Lee Myung-bak has pleaded with citizens to stop hoarding dollars and "refrain from greedily pursuing private interests."

Finance and central bank officials in Seoul had resisted the kind of sweeping guarantees to banks and financial institutions that have been offered in the United States, Europe and elsewhere in Asia. They had insisted that the fundamentals of their country's economy were strong and said the foreign media were exaggerating financial problems.

On Sunday, though, the government conceded that fear has trumped fundamentals. South Korea's currency, the won, is down 30 percent against the dollar this year, making it the biggest loser among major world currencies. The stock market has fallen 38 percent. Panicky foreign investors have pulled more than half their holdings out of South Korean stocks.

"As other major economies start providing guarantees to interbank 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 markets," a government statement said.

The central bank will guarantee, up to $100 billion, foreign-currency loans made by domestic banks from Monday through June, the government said. It estimated the banks owe about $80 billion in loans that come due before the end of June.

The Bank of Korea has about $240 billion in foreign exchange reserves and will make $30 billion available to local banks that have grown increasingly desperate to find dollars to repay foreign currency-denominated loans, the government announced.

The loan guarantees require approval from the parliament. Until then, the government said, the Korea Development Bank or Korea Eximbank will cover the new commitments.

Currency traders approved Monday morning of the government efforts, pushing up the price of the won as much as 22 percent against the dollar.

To prop up the stock market and investment firms, the government said it "will provide tax incentives for long-term holdings of funds." And to help small and medium-size businesses, many of which have failed to find credit in recent months, the government said it would make an investment that should release about $10 billion in loans.

Unlike many other countries, however, South Korea has decided not to increase the ceiling on bank deposits guaranteed by the government.

South Korea's problems with raising dollars grew steadily more alarming this year, even as its exports boomed. Exports are up 28 percent this year, according to the finance ministry.

The problem has been finding enough dollars to pay for the soaring cost of imported oil, coal and food, as well as to service foreign-currency loans.

Making matters worse, some of South Korea's major exporters began hoarding their dollar earnings, keeping the money to buy supplies for their factories and speculating that the value of the currency would rise. Thousands of citizens followed suit, hoarding dollars at home and watching the currency's value soar against the won.

As the global credit crunch tightened in late summer, South Korean banks could not obtain dollars from major international banks that have operations in Seoul. These banks were struggling as well amid the credit crisis in the United States and Europe.

The South Korean economy has been growing at a relatively brisk rate of about 4.5 percent the past five years. But forecasters say a global recession and a slowdown in exports will be a major brake on growth in the next year.

Household debt in South Korea, at 153 percent of disposable income, is considerably higher than elsewhere in Asia. About a fifth of the average Korean's paycheck goes toward interest on debt. Some analysts say a recession, with rising unemployment and a fall in income, could burst South Korea's debt bubble, as occurred during the 1997 Asian financial crisis.

The government said Sunday that the country's "real economy and its financial sector are sound." But the decision to guarantee bank loans and invigorate businesses with easier credit suggests otherwise.

"These measures will help soothe anxiety of the financial market," the government statement said.

In another response to the global financial crisis, the Dutch government will invest $13.4 billion in the banking and insurance company ING Group to boost its capital position, the Associated Press reported Sunday.

The government's stake would be about 8.5 percent, but the investment is temporary. The government will name two members to ING's supervisory board.