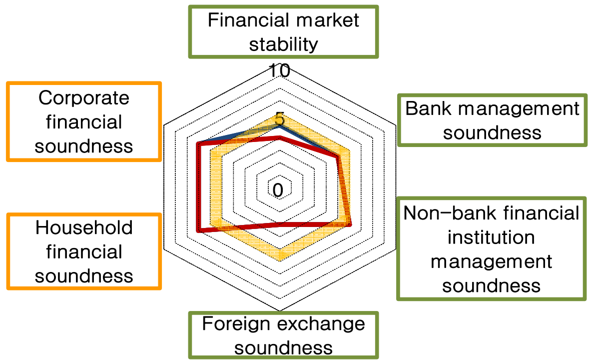
[Overview]

Although Korean macroprudential soundness conditions have not shown a distinct trend of improvement, the financial system has maintained a generally stable appearance. Looking first at macroprudential soundness conditions, household sector financial soundness has not shown any clear movements toward improvement. The ratio of financial assets to financial liabilities has increased, but with the growth in household incomes being constrained the debt-to-disposable income ratio has risen slightly. In the corporate sector, financial structure soundness as indicated for instance by the debt and interest coverage ratios has improved, but with sales contracting and operating income-to-sales ratios falling, the slump in profitability and growth has shown a picture of deepening.

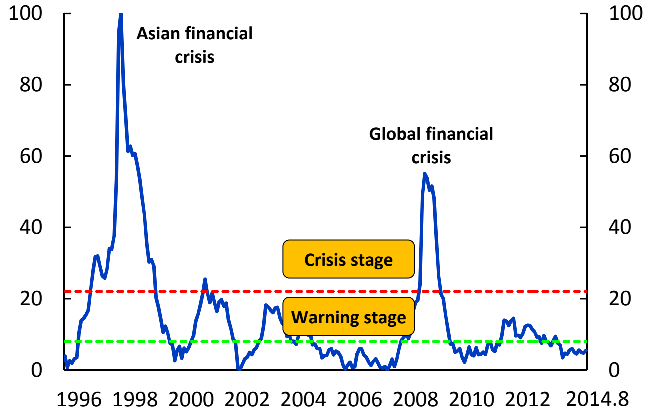
Looking next at the financial system, while banks and non-bank financial institutions have both maintained slightly improved asset soundness and satisfactory capital adequacy, their profitabilities have been somewhat inadequate. Financial market and foreign exchange soundness has sustained its picture of stability, even despite the uncertainties related for example to the monetary policy of the U.S. Federal Reserve and the financial unrest in emerging market countries. Financial market stability has risen, with price volatility contracting, while the favorable foreign exchange soundness conditions have continued despite short-term external debt ratios having risen slightly, as net external assets are increasing and banks' foreign borrowing conditions improving. These macroprudential soundness and financial system stability conditions are shown in the Financial Stability Map.[1)]

Financial Stability Map[1)2)]



Notes: 1) The closer to the center, the greater the degree of stability.
2) □ Macroprudential soundness condition dimensions
□ Financial system dimensions

Financial Stability Index (FSI)[1)]



Note: 1) The Financial Stability Index is measured based on values from 0 (min) to 100 (max). The closer it is to 100, the higher the level of instability. <The level during the Asian financial crisis (Jan. 1998) equals 100>

Source: The Bank of Korea

The Financial Stability Index[2)], which indicates the situation related to financial stability, has sustained a downward trend since August 2012 and, since falling below the "Warning" stage threshold (8) in August 2013, been showing stable movements at a low level.

Korean financial system is maintaining relatively favorable stability conditions on the whole, but care will have to be taken regarding such potential risk factors externally and domestically as the following. On the external side, there are possibilities of an interest rate hike by the U.S. Fed working as a

1) The Financial Stability Map presents a comprehensive picture of stability in six dimensions - two concerning macroprudential soundness conditions (the debt servicing capacities of the household and business sectors) and four concerning the financial system (banks, non-bank financial institutions, the financial markets and foreign exchange soundness). In the *Financial Stability Reports* through the first half of 2014, financial stability conditions comprised macroprudential soundness conditions three sectors (the domestic and global economies, households, corporations) and the financial system three sectors (banks, the financial markets, and foreign exchange soundness) as subjects for organization of the Financial Stability Map. In reflection of changes in the Financial Stability Report system from H2 2014, however, the Financial Stability Map has been newly organized. If the decile reading of a particular dimension is 5~6, then this may be seen as a degree of stability in that dimension corresponding to its average levels in the past (since 1995).

2) The Financial Stability Index (FSI) is an index created by converting a variety of different financial stability indicators into a single index, and can be used as one of the indicators for judging overall macroprudential conditions. Here the optimum critical threshold Warning and Crisis stages are calculated on the basis of the "noise-to-signal ratio" approach, at 8 and 22 respectively. For further details, refer to the April 2012 *Financial Stability Report*, <Box IV-1> "Outline of Financial Stability Index (FSI)."

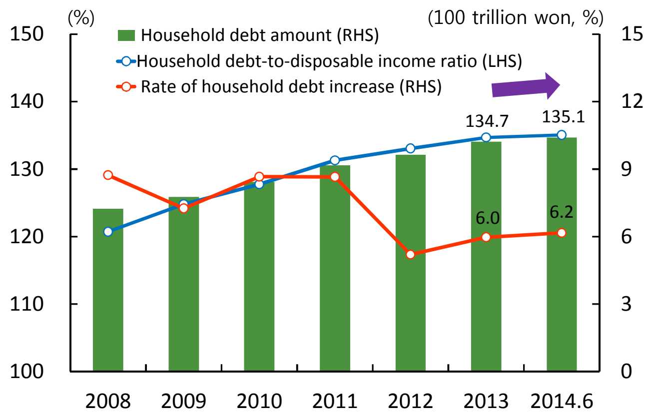
destabilizing factor in the short term and the slowdown in the Chinese economy working as one in the medium term, and in such cases the effects on the Korean financial system also appear likely to be quite large. Besides these, the slump in the euro zone, the trend of Japanese yen weakening, etc. can also have substantial negative effects on the Korean economy in the short term. In particular, should various potential external risks materialize all at once, then financial unrest could spread, centering around emerging market countries with fragile foreign exchange soundness conditions due to expansions in foreign currency bond issuance, growing current account imbalances and so on, and as it does it is expected that the impacts on the Korean financial system could become large.

Domestically, the household debt problem, the sluggishness in corporate profitability, etc. lurk as potential risk factors. With regard to the household debt problem, given that real estate prices are not falling greatly the possibility of its transforming into a systemic risk is low, but with the rate of increase in debt continuing to exceed that in incomes, households' financial soundness could deteriorate. Concerning the slump in corporate profitability, the credit risks of firms with sluggish performances continues, and there is a possibility of this negatively affecting financial institution asset soundness in the short term. And with the deepening of differences in performances across companies constraining private consumption and facilities investment, it can in the medium term also work as a factor causing the potential growth of the Korean economy to decline.

[Macroprudential soundness and financial stability conditions]

1 Households' debt repayment burdens have lightened slightly, but their financial soundness has not shown any clear signs of improvement. At 1,040 trillion won as of end-June 2014, household debt (household credit statistics basis) had risen by 6.2% over the year before. This rate of growth was up slightly compared to that (6.0%) in 2013, but at a level below the average for the preceeding five years (7.1%) as the trend of a relatively low rate of increase since 2012 continued. The household debt-to-disposable income ratio is not showing any trend of contraction, however, in line with the relatively low level seen in the rate of disposable income growth, and had risen slightly over end-2013 (134.7%) to 135.1% (estimated) at the end of June 2014.

Amount and rate of increase[1] of household debt[2], and household debt-to-disposable income[3] ratio

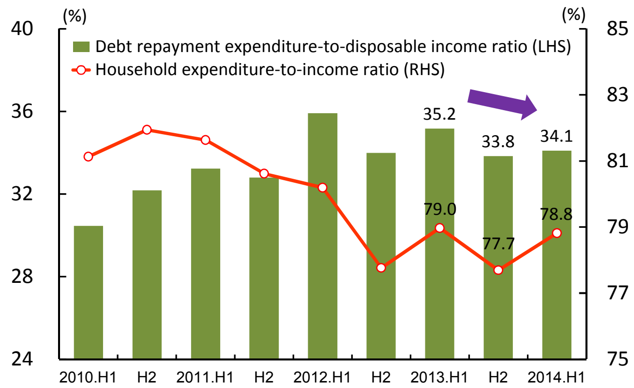


Notes: 1) Period-end basis (year-on-year)
2) Household credit statistics basis
3) Disposable income for H1 2014 estimated using household disposable income-to-gross national income ratio (average over immediately preceding three years)

Source: The Bank of Korea

At 34.1% in the first half of 2014, households' ratio of debt repayment expenditures relative to disposable income had fallen since H1 2013 (35.2%), even despite the increase in household debt. This was a result mainly of their interest expenses having shrunken with the decline in the Base Rate since the second half of 2012. The household expenditure-to-income ratio fell slightly to 78.8% in H1 2014, down by 0.2% points year-on-year, as the rate of growth in household expenditure rose but remained below the rate of household income growth. Meanwhile, household net assets (ratio of financial assets to financial liabilities) maintained a relatively favorable appearance.

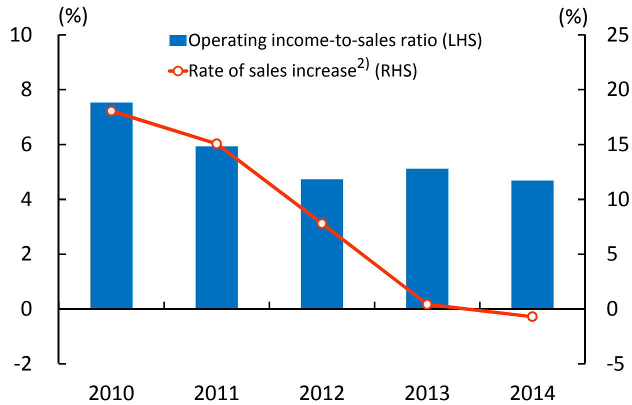
Debt repayment expenditure[1)]−to−disposable income and household expenditure[2)]−to−income[3)] ratios[4)]



Notes: 1) Amounts of loan principal and interest repayment, credit card settlement costs, etc.
2) Consumption and non−consumption (taxes, pension/insurance payments, interest costs, etc.) expenditures
3) Earned income, business income, property income, transfer income, etc.
4) Per household averages
Sources: The Bank of Korea, Statistics Korea

2 The slumps in growth and profitability in the corporate sector have worsened. With the rate of corporate sales growth recording a negative figure (−0.7%) for the first time since immediately after the global financial crisis in 2009, the stagnation in corporate growth has worsened. The operating income−to−sales ratio fell by 0.4% points, as the profitability at levels lower than that during the global financial crisis has continued.

Corporate growth and profitability[1)]

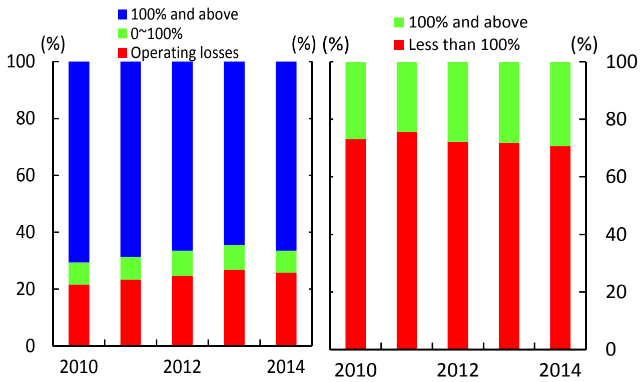


Notes: 1) First−half basis
2) Year−on−year
Source: The Bank of Korea

However, with debt reductions being carried out in response to these declines in growth and profitability, financial structure soundness has improved. The proportions of enterprises with debt ratios of 200% and above, and of those with interest coverage ratios below 100%, have fallen, and the share of companies having cash flow coverage ratios below 100% has also maintained a level similar to that in 2013.

Distributions of indicators[1] related to corporate financial structure soundness

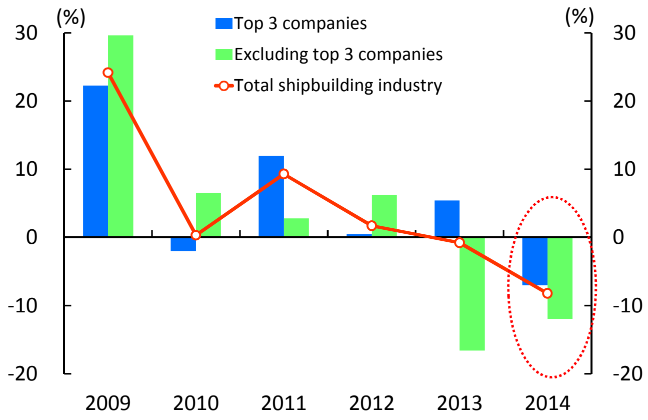
〈Interest coverage ratios[2]〉 〈Cash flow coverage ratios[3]〉



Notes: 1) First–half basis
2) Operating income / Interest expenses
3) Cash flow from business operations / (Short–term borrowings + Interest expenses)
Source: The Bank of Korea

The stagnation in corporate growth has meanwhile occurred as the sales of large export companies have declined to large extents, driven especially by slumps in performance in the shipbuilding industry, and the recent worsening of corporate profitability appears to stem mainly from this deepening stagnation in corporate growth.

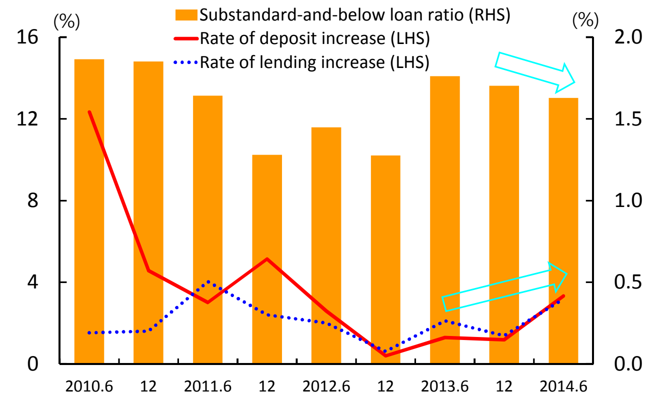
Rates of sales growth in shipbuilding industry[1)2)]



Notes: 1) First–half basis
2) Year–on–year
Source: The Bank of Korea

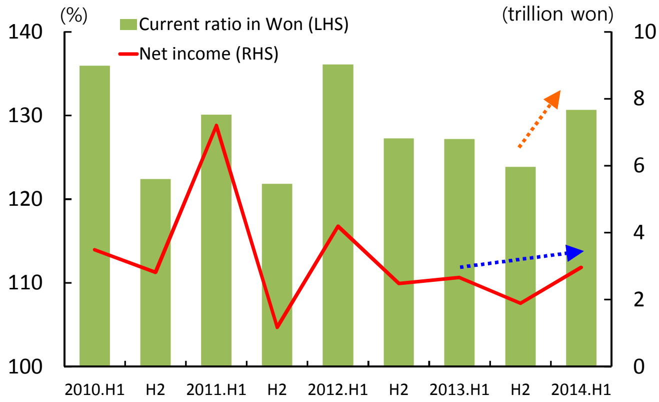
3 Bank management soundness has not clearly emerged from the slump seen until now, but it has recently been showing some slight signs of improving. In H1 2014 the trends of increase in banks' deposits and lending expanded, while their growth rose and their asset soundness also improved partially, on a decline in occurrences of new bad loans and the carrying out of bad loan write–offs and sales.

Commercial bank substandard–and–below loan ratio, and rates of deposit and lending increase[1)]



Note : 1) Compared to the previous period–ends
Sources: Commercial banks' business reports

Commercial bank net income[1)] and current ratio in Won[2)]



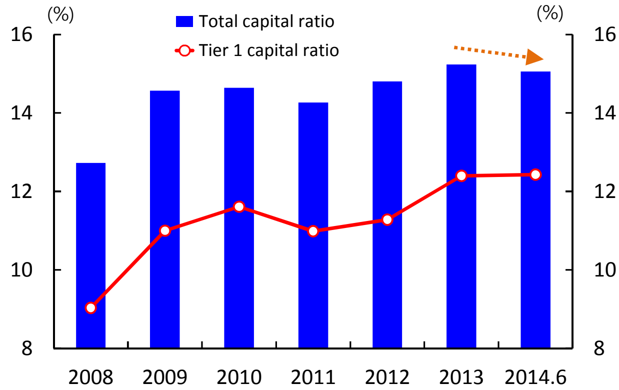
Notes: 1) After setting aside of loan loss reserves
2) Assets with remaining maturities less than one month / Liabilities with remaining maturities less than one month

Source: Financial Supervisory Service

Moreover, even though bank structural profitability, indicative of capacities to generate sustainable profits, has declined, net bank income rose slightly year–on–year in H1 2014 — owing to temporary increases in profits including increases in securities–related incomes, reductions in loan losses, etc. The current ratio in Korean won continues to maintain a high level far exceeding the regulatory requirement (100%).

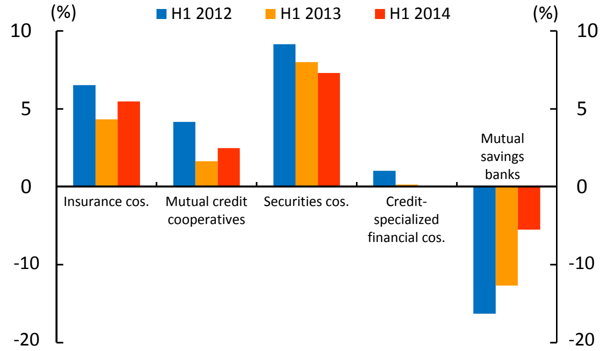
The capital adequacy ratio (total capital ratio basis) has meanwhile fallen slightly, but at 15.06% as of end–June 2014 was still greatly exceeding the minimum Basel III capital adequacy ratio standard (8.0%), and capital adequacy has thus sustained its favorable appearance.

Commercial bank BIS total capital ratio and Tier 1 capital ratios1)2)



Notes: 1) Period–end basis
2) Basel Ⅱ basis for 2008∼12, and Basel Ⅲ basis since 2013
Source: Financial Supervisory Service

Non–bank financial institution rates of total asset growth, by financial sector1)

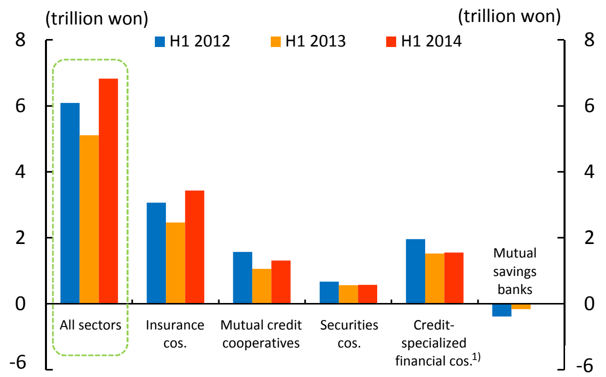


Note: 1) Excluding increases due to new market entries (NongHyup Life Insurance, NongHyup Property & Casualty Insurance and Woori Card) and accounts receivable of securities companies
Sources: Financial institutions' business reports

4 The trend of recovery in profitability at non–bank financial institutions has been weak, but amid their maintaining of satisfactory levels of capital adequacy their management soundness has improved slightly, with asset soundness for example rising. The rates of increase in total assets at insurance companies and mutual credit cooperatives have accelerated, on valuation gains on securities held, expanded inflows of deposits, etc., but slowed at securities companies and credit–specialized financial companies as their business slumps continue.

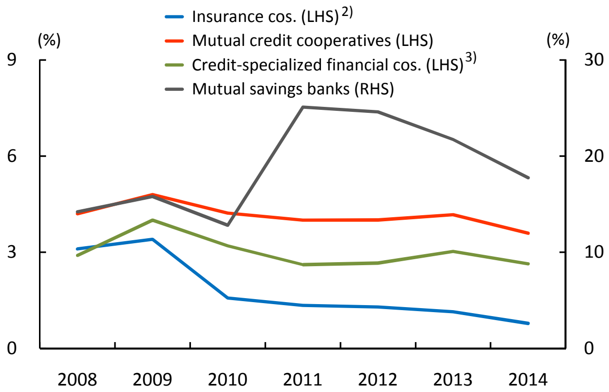
Looking at profitability, net incomes have risen — due to increased loan assets in the case of mutual credit cooperatives, and to one–off factors such as gains on sales of stocks held in the cases of insurance companies and credit–specialized financial companies. With delinquency rates declining for example, asset soundness has shown signs of improvement in most non–bank financial sectors including at insurance companies, mutual credit cooperatives, credit–specialized financial companies and mutual savings banks.

Non-bank financial institution net incomes



Note: 1) After setting aside of loan loss reserves
Sources: Financial institutions' business reports

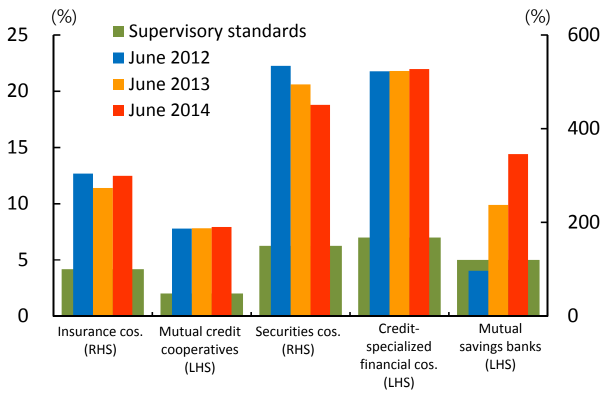
Non-bank financial institution delinquency rates, by financial sector[1)]



Notes: 1) End-June basis, based on delinquencies of one month or longer (one day or longer for mutual credit cooperatives and mutual savings bank)
2) Excluding policy loans
3) Including card (excluding credit sales, lease and installment assets)
Sources: Financial institutions' business reports

Capital adequacy has fallen somewhat at securities companies, but in the remaining non-bank financial sectors it has either improved slightly or maintained similar levels, while generally sustaining a satisfactory picture exceeding the financial regulatory standards.

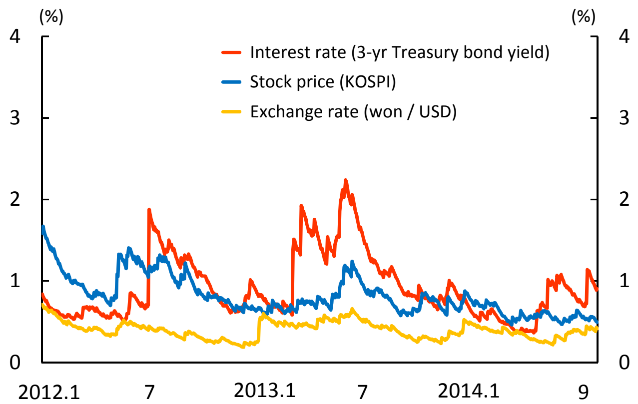
Non-bank financial institution capital adequacy ratios[1)]



Note: 1) Insurance companies' risk-based capital ratio, mutual credit cooperatives' net capital ratio, securities companies' net operating capital ratio, credit-specialized financial institutions' adjusted capital ratio, mutual savings banks' BIS capital ratio
Sources: Financial institutions' business reports

5 The domestic financial markets are showing comparatively stable trends even despite the uncertainties about the future direction of monetary policy by the U.S. Fed and the financial unrest in some emerging market countries, with price variable volatility declining for instance. Interest rate (3-year Treasury bond yield) volatility has shown somewhat of an expansion in the second half, however, on changes in expectations related to a cut in the Bank of Korea Base Rate.

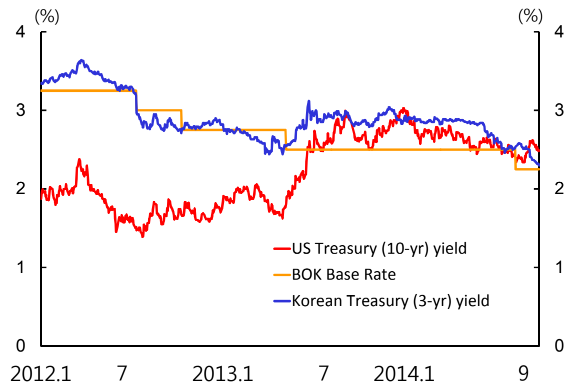
Interest rate, stock price and FX volatility[1)]



Note: 1) Daily price volatilities calculated using exponential weighted moving averages (EWMA)
Source: The Bank of Korea

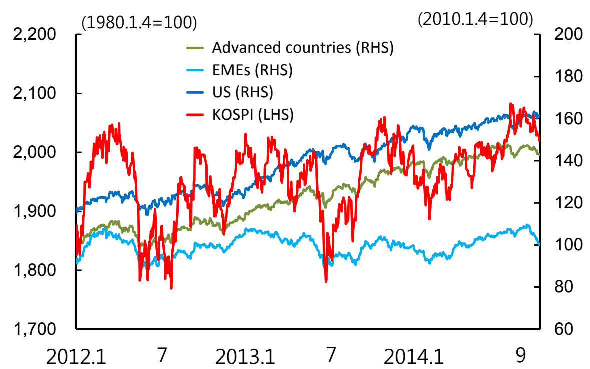
After showing a modest trend of decline from the beginning of 2014, the Treasury bond (3-year) yield has fallen relatively sharply since June, under the influence for example of the delay in economic recovery and of expectations of a Base Rate cut, and as of end-September 2014 it recorded 2.30%. Stock prices (KOSPI) had fluctuated in line with changes in expectations related to interest rate normalization by the Fed, before rising from July to reach a historic high (2,083) on July 30, influenced for example by the government's announcement of economic stimulus measures. It has since fallen, however, on the trend of Japanese yen weakening and on a reversal to outflows of stock investment funds of foreigners in line with the trend of U.S. dollar strengthening, and as of end-September 2014 stood at 2,020.

Korean and US Treasury bond yields, and BOK Base Rate



Sources: Korean Financial Investment Association, Bloomberg

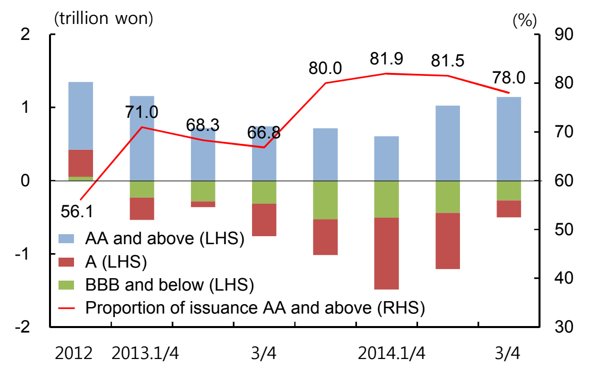
KOSPI and global stock prices[1)]



Note: 1) Based on Dow Jones Index for US, and MSCI for advanced and emerging market countries
Source: Bloomberg

In the corporate bond market, meanwhile, with credit concerns having grown large due to cuts in credit ratings for some large enterprises, and to concerns about additional losses at some medium-sized groups, non-prime companies especially are experiencing funding difficulties. Amid a continuing situation of excessive attention to prime bonds in the corporate bond issuance market, the net redemptions of non-prime bonds rated A and below have continued.

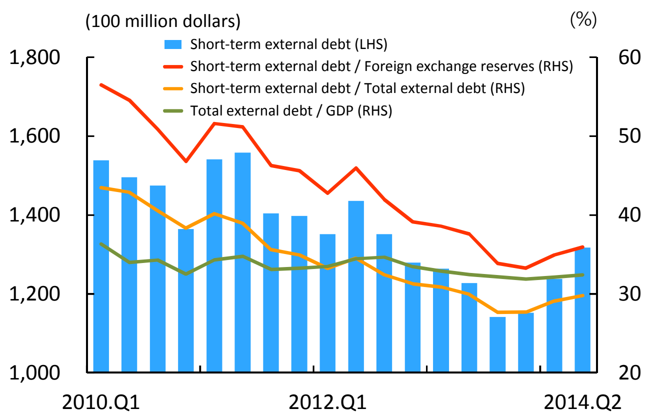
Status of corporate bond[1)] net issuance[2)], and proportion of prime bond issuance



Notes: 1) Excluding issuance of financial holding companies
2) Based on monthly averages
Sources: Korea Securities Depository, The Bank of Korea

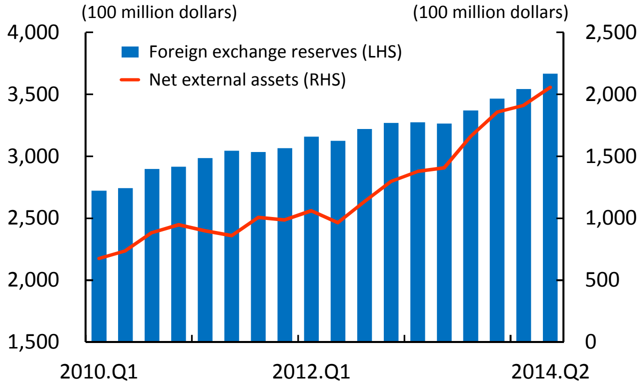
6 Foreign exchange soundness has sustained its satisfactory situation, owing for example to the continuation of the current account surplus and to the increase in net external assets. The short-term external debt ratios have risen somewhat, but with net external assets expanding relatively rapidly, on increasing foreign exchange reserves, the overall external payment capacity is sound.

External payment capacity and liquidity indicators



Source: The Bank of Korea

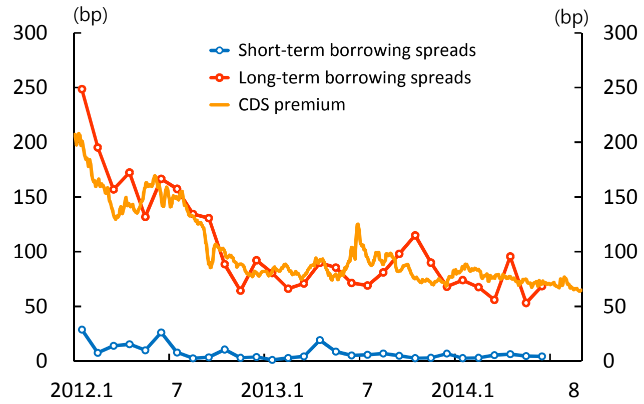
Foreign exchange reserves and net external assets



Source: The Bank of Korea

On the back of the abundant foreign exchange liquidity, domestic banks' foreign currency funding conditions are also maintaining a favorable situation. Their foreign currency borrowing spreads and CDS premiums have likewise sustained their low levels.

Domestic bank borrowing spreads[1] and CDS premium

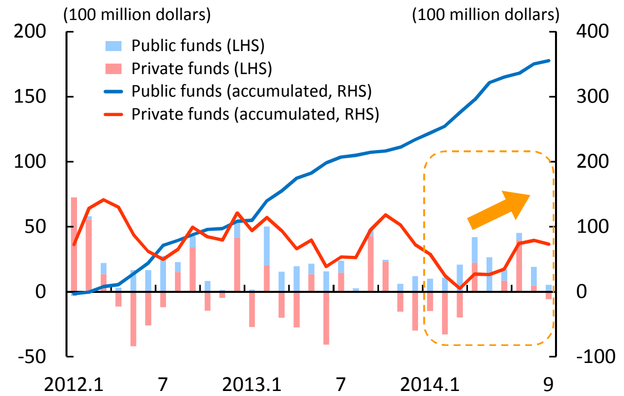


Note: 1) Borrowing spreads based on LIBOR (nine domestic bank basis); calculated by amount-weighted averaging

Source: The Bank of Korea

The net inflows of foreigners' portfolio investment funds have continued, centering around funds for investment in stocks, although with the U.S. dollar showing a trend of strengthening there was a reversal to net outflows of foreigners' portfolio funds from the middle of September. There is a possibility of these capital outflows expanding going forward, in line with changes in monetary policy by the Fed, with unrest in emerging market countries, etc. But in the case of the foreigners' portfolio investment funds that have flowed in recently, the proportion of public funds from central banks, sovereign wealth funds and so on is high (99.7% of net inflows from January to September 2014 period), and the degree of volatility in their inflows and outflows appears likely to be limited.

Foreigner securities fund flows



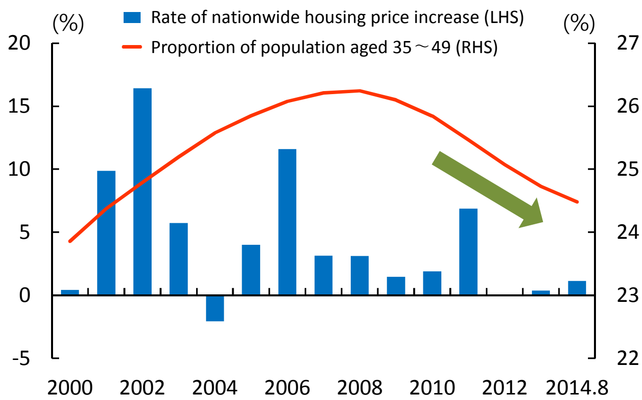
Source : The Bank of Korea

[Analysis of recent financial stability issues]

1 In August of this year the LTV and DTI ratio regulations were eased, and bank home mortgage lending rates are also showing a trend of decline, and there thus appears to be a possibility that bank home mortgage lending will increase. In the results of empirical analysis related to this as well, housing prices and incomes are found to exert significant positive effects on bank home mortgage lending, and interest rates and financial regulations significant negative effects on it.

Looked at from an overall perspective, however, as the bank home mortgage lending until now has shown a close correlation with housing market conditions, the possibility of the rate of bank home mortgage lending expanding greatly in the future is not anticipated to be high. Expectations of a housing price increase due to easing of the LTV and DTI regulations could rise somewhat in the short term, but from a medium to long term perspective, considering such factors as the underlying change in population structure, it does not appear easy for these expectations to spread greatly.

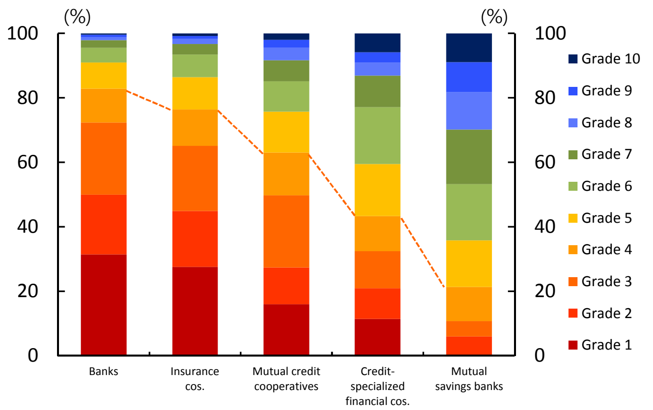
Population structure change and housing price increase[1)]



Note: 1) Compared to the previous year-ends
Sources: Statistics Korea, KB Kookmin Bank

Related to the possibility of increased home mortgage lending by banks, it seems necessary to bear in mind that non-bank financial institutions' management soundness could deteriorate going forward. Since the same LTV and DTI regulatory ratios are applied in all financial sectors, home mortgage loans from non-bank financial institutions will be redeemed and changed into home mortgage loans at banks, especially by prime borrowers, and as this happens there are worries that non-bank financial institution asset sizes could shrink in the medium to long term and their profitabilities worsen as a result. Moreover, as the quality of non-bank financial institution home mortgage loan assets could decline further, there appears to be a possibility that their asset soundness will also deteriorate.

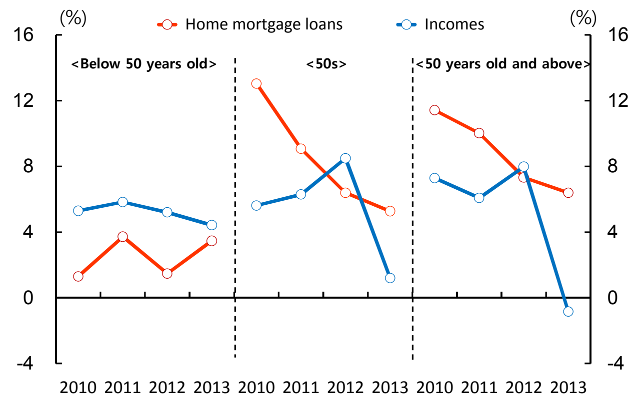
Home mortgage borrower credit rating distribution, by financial sector[1)2)]



Notes: 1) The closer to Grade 1, the higher the borrower credit rating
2) End-August 2014 balance basis
Source: NICE

Given the full-scale retirements of the baby boomer generation, and the possibility of their expanded entries into small-scale private business, there is a need as well to bear in mind the possibility of the recent easing of the LTV/DTI regulations causing a structural increase in bank home mortgage loans. The rate of increase in income relative to that in debt is lower for retirees than it is for other age groups, on top of which profitability in some self-employed business areas is low, and there will be a possibility of household loans going partially into default in the future.

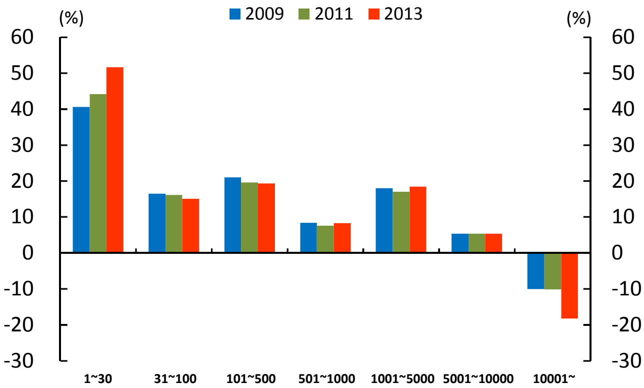
Rates of home mortgage loan and income increase[1)], by age group



Note: 1) Based on Statistics Korea 「Household Income and Expenditure Survey」
Sources: Statistics Korea, Financial Supervisory Service

2 The situation of corporate performance concentration since the global financial crisis is analyzed as having intensified, with the proportion in total firm income of that accounted for by the firms with the highest operating incomes rising greatly. Should corporate performance concentration continue to deepen like this it could negatively impact employment and facilities investment. For firms whose operating incomes are low, this is because their capacities to expand employment are limited due to increases in their personnel expense burdens, and also because, with their ratios of facilities investment volume to operating income rising, they may be passive about any additional expansion in facilities investment. For the top–ranked firms on the other hand, as the majority of them are in capital–intensive industries their coefficients of employment are low, while due to the economic uncertainties at home and abroad they do not appear enthusiastic about facilities investment even despite their high operating incomes.

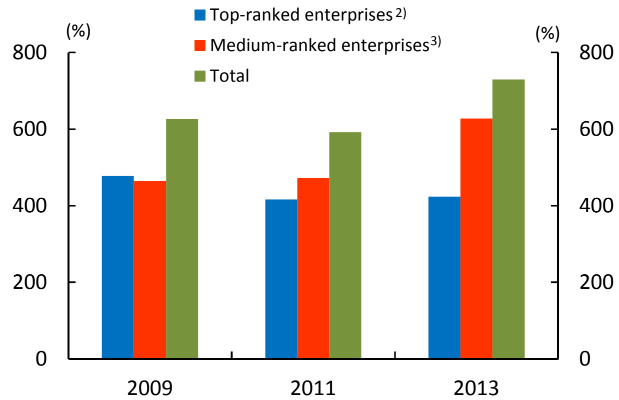
Shares in total corporate operating income, by group enterprise ranking[1)]



Note: 1) Group enterprise rank operating income / Total corporate operating income

Source: KIS–Value

Facilities investment amount[1)] / Operating income

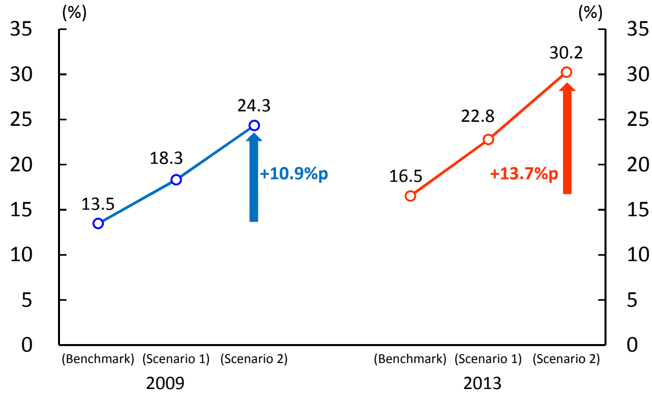


Notes: 1) Based on amounts of increase in tangible assets
2) Enterprises with interest coverage ratios of 100% or above and operating incomes in the top 30
3) Enterprises with interest coverage ratios of 100% or above and operating incomes outside the top 30

Source: KIS–Value

Meanwhile, as company holdings of short-term financial assets increase, centering around firms with the highest operating incomes, financial institutions' funding is becoming shorter term, and there is a probability of their financial intermediary functions deteriorating as a result. And if the level of concentration in the distribution of business proceeds is high, then compared to the case where they are distributed evenly the number of firms whose performances worsen when an external or domestic shock occurs will rise, while overall corporate financial soundness can deteriorate to a relatively great extent.

Changes in proportions of firms at risk at times of worsening operating environment[1)]

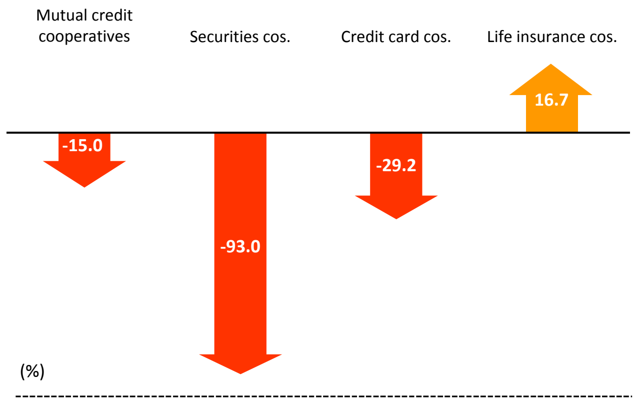


Note: 1) Scenario 1 : 15% decline in profitability and 100 bp rise in market interest rate
Scenario 2 : 30% decline in profitability and 200 bp rise in market interest rate
Sources: The Bank of Korea, KIS-Value

To alleviate this concentration in corporate performances, it is necessary to push steadily ahead with corporate restructuring on the one hand, while working to induce expansions in facilities investment on the other hand, through for example easing of the related regulations. Monitoring will in addition have to be continually strengthened, to check on the possibilities of decline in corporate financial soundness and financial system stability following any occurrence of shock domestically or abroad.

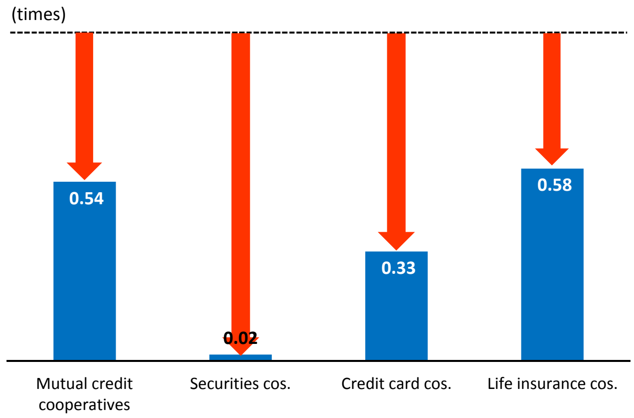
3 A look at the trend in non-bank financial institution profitability from the time of the financial crisis to 2013 shows that it did improve temporarily after the crisis, but since 2010 has worsened again in the majority of non-bank financial sectors. If we compare the sizes of net income in 2013 with those in 2007 just prior to the financial crisis, they have declined to large extents in the majority of non-bank sectors including at securities companies, credit card companies, mutual credit cooperatives, and so on, with the exception of life insurance companies. Returns on assets have also fallen to 0.58 to 0.02 times their pre-crisis levels in most non-bank financial sectors.

2013 net income levels[1] compared to pre-financial crisis period, by non-bank financial sector



Note: 1) 2013 net income levels compared to base year (2007 = 100)
Sources : Financial institutions' business reports

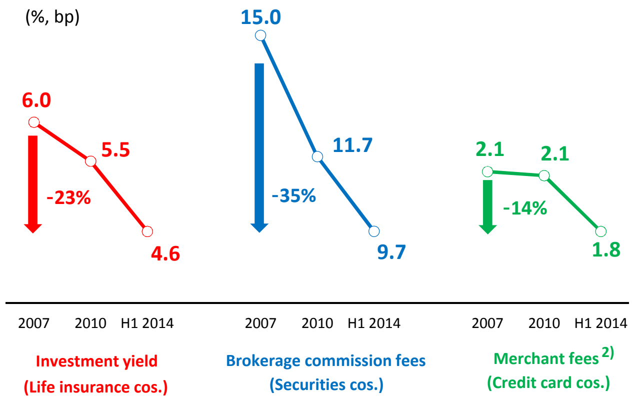
2013 ROA levels[1] compared to pre-financial crisis period, by non-bank financial sector



Note: 1) 2013 ROA levels compared to base year (2007 = 100)
Sources : Financial institutions' business reports

The worsening in non-bank financial institution profitability results mainly from cyclical factors owing for example to the delay in recovery of domestic demand, on top of structural factors such as the declines in core revenue generating capacity due to intensified competition, to changes in the financial environment, and so on. The core revenue sources influencing non-bank financial institution profitability, including securities companies' brokerage commission fees and credit card companies' merchant fees, have declined considerably compared to the pre-financial crisis period, while for life insurance companies their investment yields have also fallen greatly due to the drop in interest rates. The possibility of this decline in non-bank financial institutions' core revenue generating capacities improving in a short period of time does not seem high.

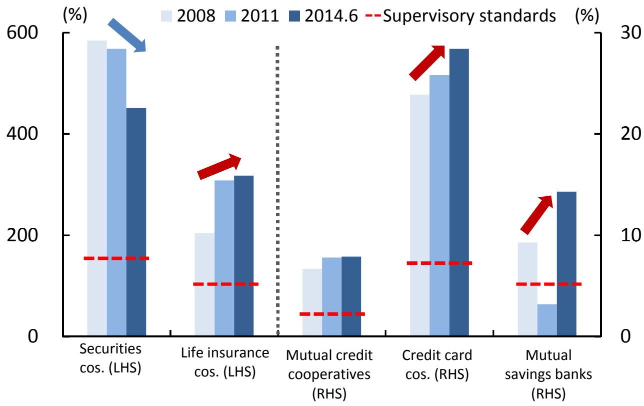
Life insurance, securities and credit card company core revenue sources1)



Note: 1) Sources accounting for highest proportions in total revenues in the respective sectors
2) Ratio of merchant fee income to card usage amount
Sources : Financial institutions' business reports

Considering their generally satisfactory loss absorption capacities, however, the possibility of the recent deterioration in profitability undermining non-bank financial institutions' overall management soundness does not appear to be high. Due to the modification of prudential regulations since the global financial crisis, and to financial institutions' strengthening of their risk management, capital adequacy ratios have risen in most non-bank financial sectors with the exception of securities companies, and their levels are also running well above the financial regulatory standards in all sectors.

Non-bank financial institution capital adequacy ratios[1), by sector



Note : 1) Life insurance companies' risk-based capital ratio, securities companies' net operating capital ratio, mutual credit cooperatives' net capital ratio, credit card companies' adjusted capital ratio, mutual savings banks' BIS capital ratio

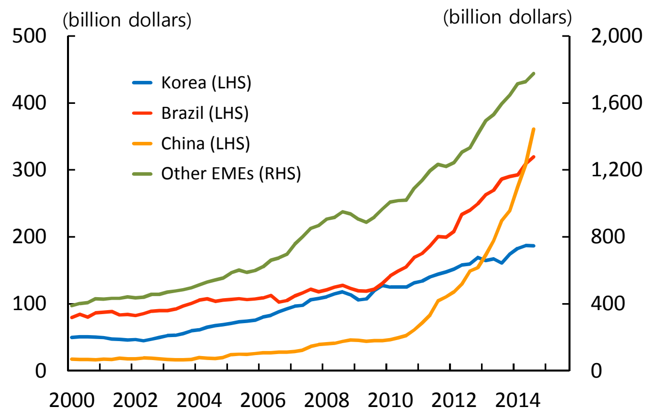
Sources : Financial institutions' business reports

Considering, however, that the likelihood of profitability conditions improving distinctly going forward is not significant, the possibility of defaults in one specific non-bank financial sector transitioning into risks in other sectors must be kept in mind. To improve their conditions for profit in the future, non-bank financial institutions must concentrate on boosting their cost efficiency in the short term, and in the long term strengthen their efforts for diversification of their profit structures.

4 Amid the long period of continuing low interest rates since the global financial crisis, the raising of foreign currency funds through international debt securities issuance by emerging market economies (EMEs) has increased greatly. In line with this, should market interest rates rise owing for instance to monetary policy normalization in advanced countries, the possibility is being suggested of outbreaks of financial unrest in EMEs owing to rollover risks, etc. Due to the increase in global liquidity since 2008, the amounts outstanding of EMEs' international debt securities issuance (by issuer nationality) has continually risen, to double its 1.3 trillion dollars at the end of 2009 at 2.6 trillion dollars as of end-June 2014.

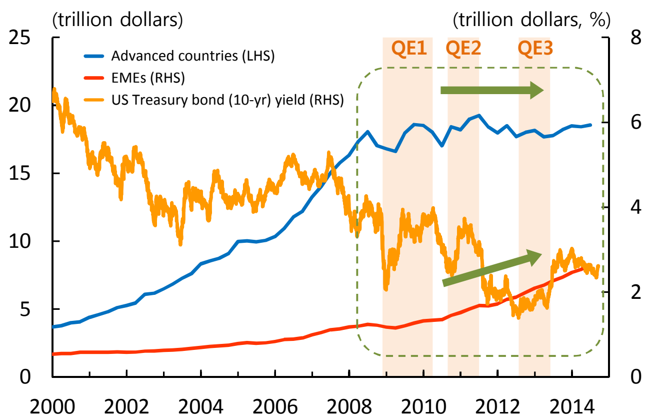
The trends in Korea's international debt securities issuance appear different from those in other EMEs, however. The amount of Korean international debt securities issuance has increased by an average 8.7% per year since 2010, a level lower than the 17.1% rate of increase for other EMEs on the whole, and a low level compared as well with Korea's average 15.4% in the 2002~2007 period prior to the global financial crisis. At the end of June this year, Korea's international debt securities amount outstanding stood at a volume of 186.4 billion dollars.

Amounts outstanding of major EMEs international debt securities



Source: BIS Debt Securities Statistics

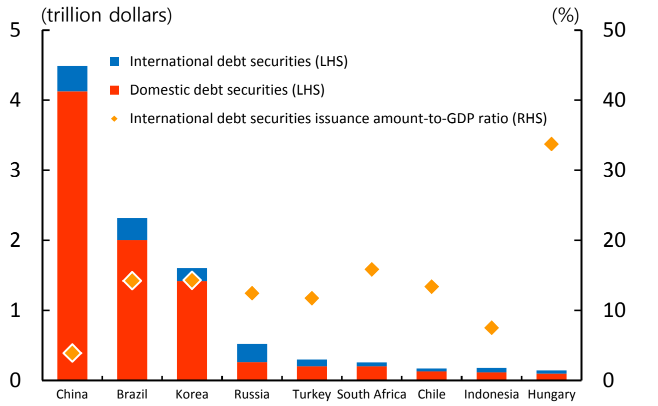
Amounts outstanding of global international debt securities



Source: BIS Debt Securities Statistics

Meanwhile, in a situation in which overseas bond issuance by EMEs has expanded greatly, if expectations should spread of early policy rate hikes by central banks in advanced countries such as the U.S. and the U.K., or concerns about a hard landing of the Chinese economy, there seems a possibility, together with capital outflows, of financial unrest surfacing in some EMEs.

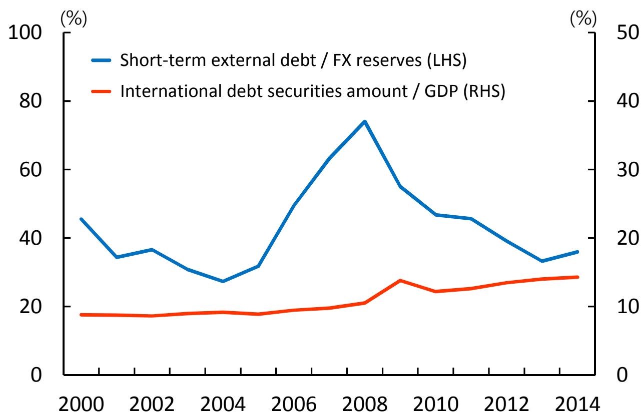
Major EMEs domestic and international debt securities issuance amounts[1)]



Note: 1) Amounts outstanding as of end–June 2014
Source: BIS Debt Securities Statistics

But while it is difficult to completely rule out the possibility of the Korean financial markets becoming unstable due to financial unrest arising in some EMEs related to this international debt securities issuance, the effects are likely to be limited. This is because Korea's economic fundamentals related to international debt securities issuance are being assessed as relatively favorable, with its rate of international debt securities issuance maintaining a low level amid abundant domestic foreign exchange liquidity against the background of current account surpluses, the short–term external debt–to–GDP ratio also sustaining a trend of decline, and so on. Bearing in mind, however, that the channels for transmission of external shocks to EMEs have expanded, from the domestic foreign exchange, stock and bond markets formerly to the international debt securities markets now as well, there is a need to further strengthen monitoring related to trends in the international financial markets.

Korean external soundness indicators[1)]



Note: 1) End–June 2014 basis (GDP based on 2013)
Sources : BIS, IMF *WEO*