

CAN CONTINUOUS RESTRUCTURING SYSTEM SETTLE DOWN SUCCESSFULLY?

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The second restructuring of the corporate and financial sectors has been underway since October 2000. The most important measure in this effort is to establish a system of continuous restructuring. This system will continue to reform both the corporate and financial sectors, and the financial industry should give rise to industrial activities.

The most important measure in this effort is to establish a system of continuous restructuring.

Continuous restructuring will help stabilize the Korean economy and raise the country's credit rating by both Moody's and Standard & Poor. However, if the system is not implemented soon, jittery sentiment in the financial market will reappear, which would give rise to a vicious credit crunch cycle again this year.

Fortunately, attempts to resolve issues such as the five largest corporations' debt curtailment or sale, will set the conditions for good news. And within a year a few large financial companies such as Seoul Bank or Daihan Life Insurance are also likely to find a way to survive.

Since early this year, the Ministry of Finance and Economy and Korea Development Bank introduced an assistance package for cash-strapped companies to mitigate the serious corporate sector liquidity shortage. Such public support to financial intermediaries is seen as an irresistible action.

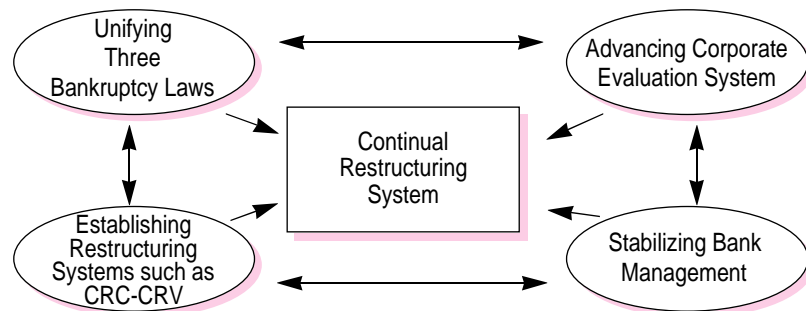
The Economic and Financial Environment

The fundamentals of the Korean macroeconomy should help many Korean firms regain operational profit this year. However, there is some anxiety about the second half of this year due to declines of export growth as well as domestic private investment and consumption. Trade pressure from abroad is also steadily mounting.

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However, although there are 38 trillion won worth of corporate bonds scheduled for maturity by the end of 2001, 34% of this amount can be rolled over or exempted temporarily by creditors, 40% will be rolled over by the issue of primary CBO, bond-type fund's buying, and the rest should be absorbed by creditor banks' CBO and CLO issues. As a result, the domestic bond market for the rest of the year will be healthier than it was one year ago.

— Table 1. Key Success Factors for the New Restructuring System —



Necessary Improvement For the Success of a New Restructuring System

Four improvements should be made so that the new restructuring system can operate successfully.

During the first half of this year, no Corporate Restructuring Companies were established and many economists do not expect all unsound companies on their way to exit to be liquidated completely. It is thought that four improvements should be made so that the new restructuring system can operate successfully.

The three laws for processing bankrupt corporations should be put together in order to quickly end the financial paralysis. After that, the Corporate Restructuring Vehicle and Corporate Restructuring Companies need to be activated, which would allow some cash-strapped companies to recover. More importantly, creditor banks should accurately evaluate the credit rating of firms and skilfully manage credit risk. In addition, banks must have enough size and globalization to compete internationally and handle many types of market and managerial risk.

Establishing a Continuous Restructuring System

Clearing unsound firms: A system of responsible management is urgently needed for firms that are currently labeled as unsound or in critical condition.

Creating an early warning system: Creditor financial institutions should focus on creating a system to monitor and warn of a company's bankruptcy risk.

Promoting a creditor deliberation body: A deliberation body would help creditors agree on debt adjustment and normalization measures for new unsound companies.

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To develop the capital market, continual deregulation and strict adherence to rules are needed. Entry into all financial industries should transformed into a negative system. **VIP**