

# **Building Capacity in Sovereign Debt Management - The Case of Korea -**

IBRD Sovereign Debt Management Forum

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# The Korean Government Debt

## ◆ Before the 1997 Financial Crisis :

- maintained balanced budget  
⇒ modest level of sovereign debt relative to GDP

## ◆ Due to the Crisis Management, Sovereign Debt Has Increased Substantially :

- official loans to overcome FX liquidity problems  
( IBRD \$7 Bil, ADB \$3.7 Bil)
- budget deficits allowed to prevent severe economic downturn  
(budget surplus / GDP: '98 -3.2%, '99e -4.0%)
- gov't guarantees extended to support financial restructuring

### < Sovereign Debt relative to GDP >

(end of year, Bil. US\$, %)

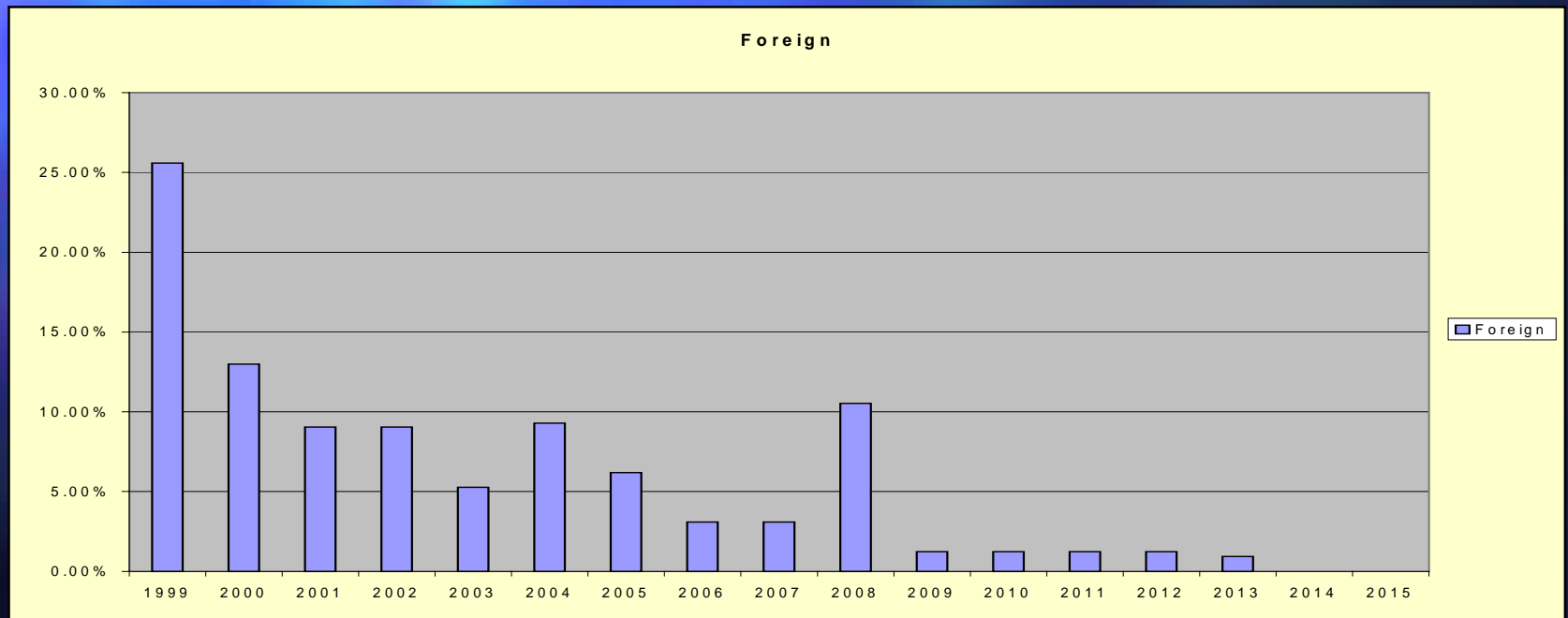
	1996	1997	1998	1999e
<b>Government Debt</b>	<b>43.6</b>	<b>35.7</b>	<b>59.1</b>	<b>78.5</b>
<b>Relative to GDP</b>	<b>8.8</b>	<b>11.1</b>	<b>15.9</b>	<b>19.4</b>

# Current Profiles of Sovereign Debts in Korea

## 1. Government Foreign Currency Debt (as of end 1998)

- Nominal Value : USD 19.1billion
- Floating Rate Debt is 87.5%

### Foreign Currency Debt Maturity Profile

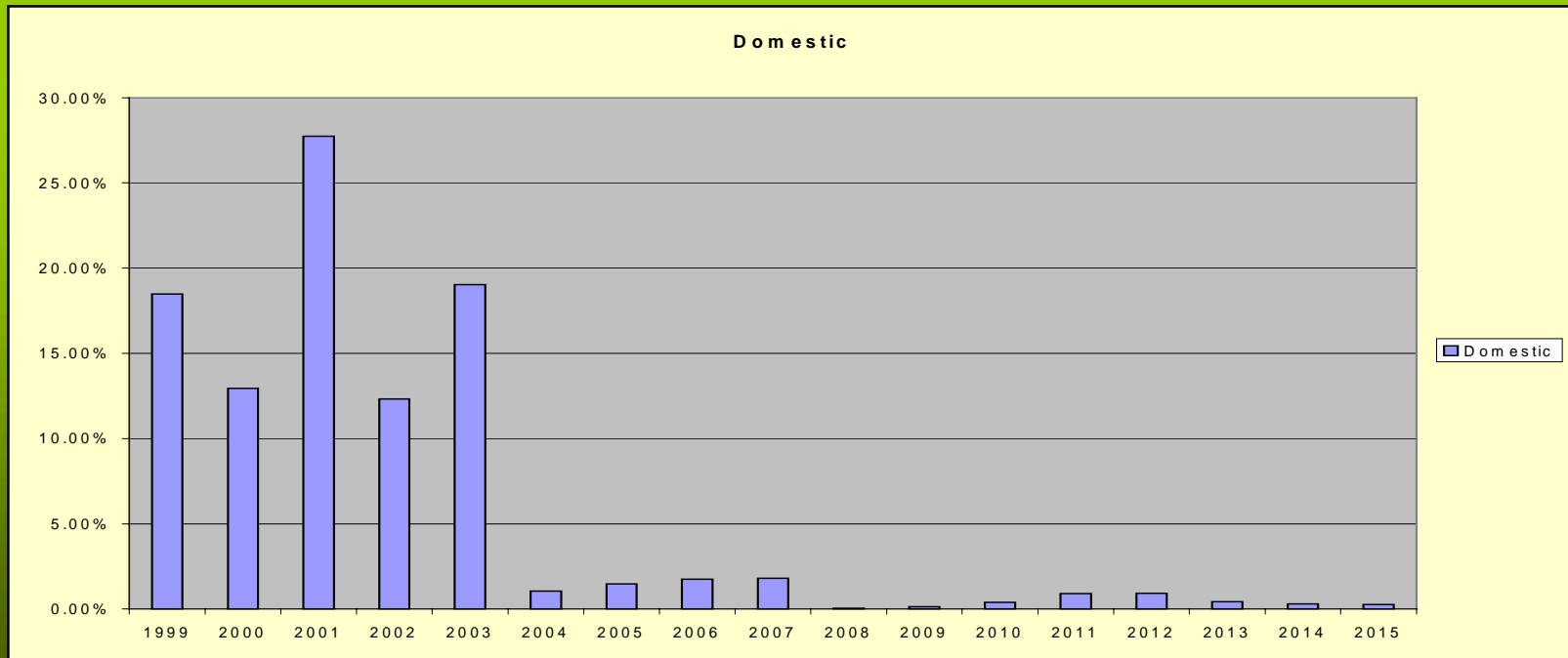


# Current Profiles of Sovereign Debts in Korea

## 2. Government Domestic Debt (as of end 1998)

- **Nominal Value : KRW 47.5 trillion**  
(equivalent to USD 40 billion assuming 1200 Won/\$)
- **Fixed Rate Debt is nearly 100%**

### Domestic Debt Maturity Profile



# Risks and Challenges

- ◆ The Government has already begun repaying foreign currency debts
  - ◆ However, domestic debt is expected to grow in the near future
  - ◆ Foreign currency debt duration is short (modified duration: 0.81)
  - ◆ Domestic debt profile implies non-negligible liquidity / refinance risks
- ⇒ Need for an efficient and systematic sovereign debt management



# The Sovereign Debt Management Project

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## **1. Project Period : 99. 1 ~ 2000. 3 ( 15 months )**

- **Preliminary studies in consultation with World Bank ( 6 months )**
- **Developing sovereign debt risk management system and organizational units ( 7 months )**
- **Education and training ( 2 months )**

## **2. The Debt Management Team**

- **MOFE efforts supported by World Bank (Capital Markets Development Dept)**
- **Local Team led by Korea Development Institute ( 4 members )**
  - **financial/macro/public finance economists and one risk management specialist**
- **Two international consultants from advanced DMOs.**

## **3. Total Estimated Cost : US\$ 375,000**

- **Financed by World Bank TA Loan**

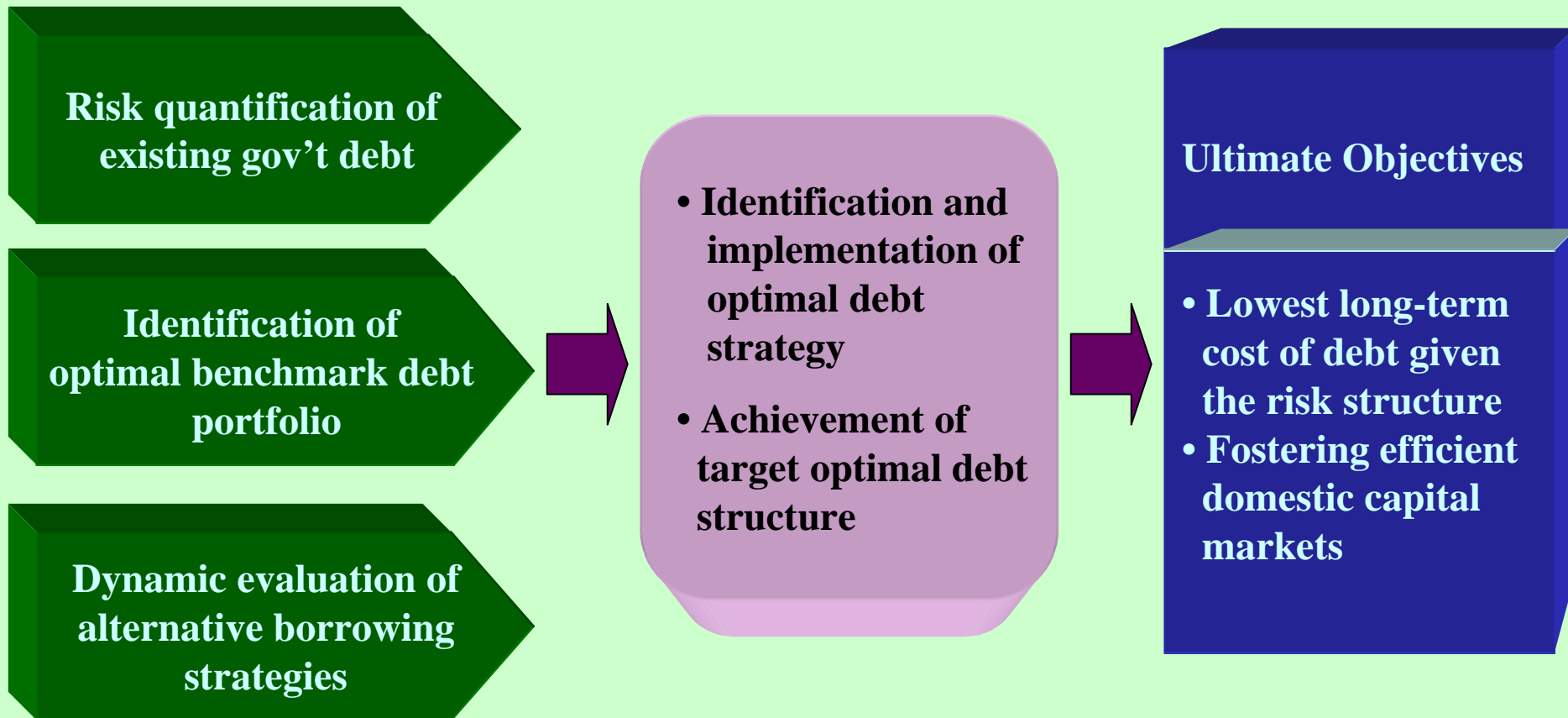


# Basic Strategies and Approaches

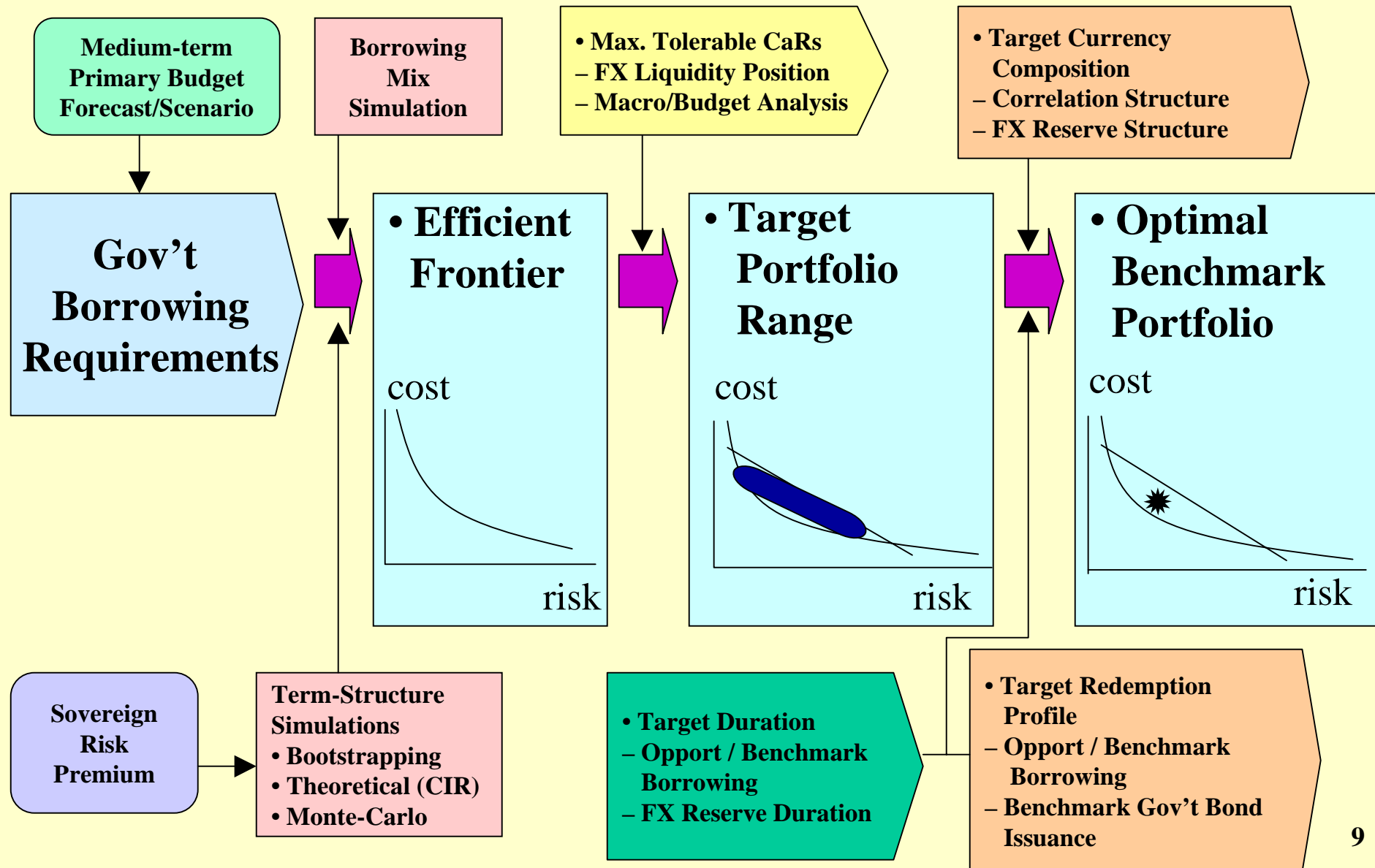
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- ◆ **Develop a Core Middle Office Functions First**
  - currently developing sovereign debt risk management system
- ◆ **Cover Both External and Domestic Debts within a Unified Framework**
  - separate portfolio management but under a unified system
- ◆ **Combine Both Practical and State-of-the-art Risk Management Tools**
  - standard tools to manage liquidity / refinance, budget, market and credit risks
  - dynamic efficient portfolio and CaR (Cost-at-Risk) methodologies

# Sovereign Debt Risk Management System



# Strategic Benchmarking Framework



# Future Plans

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- ◆ **Continue to Strengthen the Middle Office Functions**
- ◆ **Keep Consistency with Government Funding Strategies and Cash Management Practices**
- ◆ **Expansion towards more Efficient Front / Back Offices**