

Country Report 2010

KOREA

Korea Credit Finance Association

1. Current Market Description

The Korean Economy in 2009

After the collapse of Lehman Brothers the Korean economy suffered severe problems, as the financial and foreign exchange market turmoil and shrinkage of the real economy continued until last spring. Under these circumstances, the Bank of Korea ratcheted up its expansionary monetary policy in an effort to support financial market stability and rapid economic recovery.

The Korean financial and foreign exchange markets have regained stability rapidly since the beginning of the second quarter of 2009, thanks both to the easing of global financial market unrest and to the bold policies to counter the crisis of the government and the Bank of Korea. The credit crunch has been resolved and stock prices have risen sharply. There has been an increasingly conspicuous recovery in the real economy, as well, boosted by a rapid pick-up in exports and steady growth in consumption. As a result, the Korean economy is estimated to have recorded positive growth in 2009.

Leasing Market in Korea

In 2009, the leasing acquisition volume was about 7.43 trillion won, which was far less than 14.3 trillion won achieved in 1995. Besides it is less than 9.96 trillion won achieved in 2008. In 2009, the decrease was observed across all industries, in particular distinctively in the automobile industry.

The automobile lease has played an initiative role in recovering leasing market since 2000. Its leasing contracts volume had remained just at 5.1% in 2000 while took 55.2% as of the end of 2009, serving as a pulling engine for the domestic leasing market. The amount of automobile lease in Korea reached the scale of 4.1 trillion won as of the end of 2009, of which the total amount of lease was 7.43 trillion won, taking up half. But it was decreased by 0.8 trillion won compared with the previous year.

The leasing acquisition volume as of the end of 2009 showed the following figures by leasing items: industrial machinery equipment (12%), medical appliance (7%) and educational, scientific & technological equipment (11%). The industrial machinery equipment had taken up 59.4% (around 7.7 trillion won) of total leasing contracts volume in 1997, which is the time for the country's financial crisis. In contrast, it took only 12% (896 billion won) as of the end of 2009, which meant a remarkable decline in terms of volume and proportion. This resulted from depressing domestic consumption and declining facility investment of the corporations due to the country's financial crisis in 1997.

Table 1. Leasing analysis by Asset Type (As of the end of 2009)

Classification	Acquisition Volume (in billion Won)					
	2009	%	2008	2007	2006	2005
Machinery	896	12.1	1,894	1,779	1,056	640
Transportation	4,864	65.5	6,078	6,050	4,533	3,801
Medical	507	6.8	811	824	651	651
Anti-pollution	1	0.0	1	35	7	7
Educational, Scientific & technological	800	10.8	588	472	484	484
Communication	191	2.6	162	213	172	79
Distribution Equipment	5	0.1	13	6	2	5
Others	165	2.2	417	289	186	136
Total	7,429	100.0	9,965	9,669	7,091	5,569

2. Growth of the Industry

Development of Leasing in Korea

The first leasing company was established in 1972, and the Leasing Industry Promotion Act - renamed as the Leasing Business Act in 1991 - was enacted in 1973. Since that first leasing company began its operations, the Korean leasing industry has continued to grow steadily in both volume and in the number of companies. The share of leasing finance in total national facility investments, which was a mere 0.2% in 1974, edged up to 10.2% in 1987, and shot up to 25.6% in 1995, and in doing so, the leasing industry became an important area of the financial industry in terms of contributions to the national economy. As of the end of December 1997, there were twenty-five leasing companies, including twenty local leasing companies, and five companies founded as joint ventures with foreign investors to facilitate the use of foreign funds. The local leasing companies were established during 1985~1995 in order to meet the increasing leasing demand for regional enterprises. In most cases, their capital was endorsed by domestic financial institutions.

From January 1, 1998, Korea's leasing business entered into a new phase, with structural changes in its financial system induced by the government's intention to reduce the regulations of secondary financial institutions to a minimum. In the past, leasing, installment finance, venture capital and the credit card business all operated under their own set of laws, the so-called "barricade" system.

However, since the enactment of the "Credit Specialized Financial Business Act" on January 1, 1998, financial institutions that do not take deposits from the public have been classified as credit-specialized companies.

Since the time of the economic crisis in 1997, the Korean leasing industry suffered from a rapid increase in overdue lease fees and paralysis of the local money market, so most specialized leasing companies stopped normal operations during 1998. The leasing industry's non-performing loans have increased sharply since the economic crisis, as well. The reason for the jump in non-performing loans was due to soaring corporate bankruptcies amid the abrupt downturn of the Korean economy and the past aggressive marketing strategies of leasing companies without proper risk monitoring.

As a result, the leasing contract volume was greatly decreased. Since 2000, leasing market, in particular the automobile leasing market, has been gaining the recovery force thanks to the constant restructuring efforts of leasing companies.

As of the end of 2009, there are 45 leasing companies, including 24 specialized leasing companies and 21 non-bank financing companies registered in the leasing business. 21 non-bank financing companies registered in the leasing business include 2 credit card companies, 15 installment finance companies and 4 venture capital companies.

3. Constraints and Opportunities

Constraints

A financial institute specializing in credit facility as leasing company in Korea is unable to obtain the deposit by its business nature but relies on the internal deferral or borrowing outside for its operational funds required in new business. The high interest rate for funds rising weakened its competitive force. Therefore the domestic leasing industry has been retrenched by difficulties in funds rising. It is necessary to diversify the method of financing

Opportunities

As major leasing asset is concentrated on transportations (cars, trucks, etc), it is urgent to find the alternative type of leasing asset. Recently, government allowed leasing company to lease(sale & lease-back) real estate for business use to SME (Small and medium enterprises) which is manufacturing company. Extending the scope of the real estate leasing, leasing market would be invigorated.