S. Korean banks repay foreign debts amid enhanced funding conditions

SEOUL, Oct. 14 (Xinhua) -- South Korean banks repaid foreign debts last month as local lenders held sufficient foreign currency liquidity secured in advance through long-term borrowing, the financial watchdog said Sunday. The rollover rate of short-term foreign debts with a maturity of less than one year at 16 local banks came in at 91 percent in September, according to the Financial Supervisory Service (FSS). The rollover rate gauges the percentage of fresh overseas borrowing against foreign debts that mature within the month. The rate below 100 percent means local lenders repaid maturing debts rather than refinancing them. Domestic banks continued to reduce their short-term foreign borrowing this year by securing long-term foreign currency liquidity earlier in preparation for the potential external shocks. The refinancing rate of long-term external debts that mature in one year or more at 12 domestic banks, excluding regional banks, reached 97.8 percent in September, according to the FSS. The figure was sharply down from 437 percent in August. With the maturities of foreign debts lengthening, concerns spread that local banks may suffer from losses in foreign currency operation as the lenders should borrow high-cost, long-term foreign funds, which would be managed through short-term lending. Regarding this, the watchdog said that the losses may be viewed as a cost to insure the country's financial system from potential external shocks. "Global credit rating agencies upgraded South Korea's sovereign rating recently, citing enhanced foreign currency soundness in the banking sector. This led to the fall in CDS premiums that could offset the losses in foreign currency operation. The cost should be viewed as an insurance premium to stabilize our financial system," Lee Ju-hyung, director general of foreign exchange supervision department at FSS, told reporters. Foreign currency funding conditions for local banks improved last month thanks to a series of sovereign rating upgrade for South Korea. Fitch revised up the country's sovereign rating from A-plus to AA-minus in Sept. 6. One week later, Standard & Poor's upgrades its rating for South Korea from A to A-plus. Moody's also revised up its rating for the country in late August. Global liquidity conditions become more ample following monetary easing measures by major central banks. The European Central Bank (ECB) unveiled in early September its bond-purchasing program for debt-riddled eurozone nations, and the U.S. Federal Reserve announced the third round of quantitative easing in mid- September. South Korea and Japan agreed not to extend the bilateral currency swap arrangement, reducing the deal between the two countries to the pre-crisis level of 13 billion U.S. dollars from 70 billion dollars, but it will not have a great impact on the funding conditions for local lenders, the watchdog said. "With the expiration of the currency swap deal between Korea and Japan, the bilateral swap volume decreased to 13 billion dollars. But, it will cause neither the worsening of funding conditions nor lack of foreign currency for local banks thanks to ample liquidity secured by lenders in advance," said Lee. The spread on credit default swap (CDS) for South Korea's dollar-denominated sovereign debts that mature in five years came in at 86 basis points (bps) as of the end of September, down 18 bps from a month before. The spread dropped to this year's low of 69 bps in mid-September. Weighted average spread on local banks' foreign borrowing with a maturity of less than one year stood at 5.9 bps last month, almost the same as this year's low of 5 bps tallied in the previous month. The spread on five-year foreign debts advanced 9 bps on-month to 154 bps last month, but the figure for one-year debt tumbled 45 bps to 102 bps. Local banks' foreign currency soundness numbers exceeded their recommended levels. The three-month foreign currency liquidity ratio, a barometer of banks' foreign liquidity healthiness, stood at 107.7 percent as of end-September, breaching the recommended level of 85 percent. The ratio is calculated by dividing liquid foreign assets that mature within three months by liquid foreign liabilities with a maturing of less than three months. Both seven-day and one-month mismatch ratios stayed above the recommended level of minus 3 percent and minus 10 percent in September. The ratios stood at 2.0 percent and 2.3 percent each last month.