Longer foreign debt maturity in S.Korean banks credit positive: Moody's

SEOUL, Aug. 20 (Xinhua) -- Longer maturity of foreign debts held by South Korean banks was credit positive as it will reduce refinancing risk for local lenders that heavily depend on wholesale funding, global credit rating agency Moody's said Monday.

"Korean banks rolled over more of their long-term foreign currency debt than their short-term debt. This development is credit positive for Korean banks as an increased proportion of long-term debt reduces refinancing risk," Kwon Hee-jin, a credit analyst at Moody's in Hong Kong, said in a report.

According to the Financial Supervisory Service (FSS), the rollover rate of local banks' long-term foreign currency liabilities with a maturity of more than one year stood at 151.2 percent for the first seven months of this year, up from 150.8 percent in 2011 and 118 percent in 2010.

The refinancing rate of short-term foreign debts that mature in less than one year fell to 90.4 percent during the January-July period from 103.0 percent in 2011. The refinancing rate means the ratio of newly borrowed debt to maturing debt.

Kwon noted that these rollover rates indicated that local lenders were replacing their short-term debts with long-term ones.

Foreign currency liquidity has been a structural weakness for South Korean banks due to their heavy dependence on wholesale funding. Local lenders encountered significant difficulty in repaying their maturing debts with their own liquidity when offshore funding markets shut down as seen in 2009 when the global financial crisis peaked.