And then our focus is on the current state of market interest rates. I will cover bond rates and bank lending rates. Now, the Bank of Korea has lowered its base interest rate twice in July and October.

The government aims to promote economic development by lowering the base interest rate, encouraging consumption and investment. In order to do so, the overall market interest rate will fall, so loans will have to be activated and the circulation of funds will have to be faster. But, in reality, market interest rates are rising. We’ve been thinking about two main areas that are causing the market interest rate to rise. One is a rise in interest rates in the bond market (mainly in the treasury bond setor) and one is a rise in bank lending rates under the bank’s loan to deposit regulation. We want to see the background of why bond interest rates have increased.

The government plans to issue more than 10 trillion won in treasury bonds due to the expansion of the supplementary budget or spending, according to the ministry’s 2019-2023 national financial Management Plan and the 2020 budget plan. As you can see, in November, the government plans to issue 66.6 billion won in treasury bonds and another 390 billion won in December, and will continue to issue treasury bonds in the future. In this, graph the interest rate on treasury bonds has been trending since July, when the government first lowered its base interest rate. Despite, further cuts in October, the treasury bonds’ interest rate has continued to rise to this point. And, this data is a record of the various details of the plan by the Ministry of Strategy and Finance. And if you look at that, there is a called ‘가평낙찰금리’ is mean Bidding rate. As you can see, the overall trend is on the rise.

Not only bond rates but also bank’s lending rates are increasing. First, I want to explain about the ‘loan-to-deposit ratio’. This means a loan against Deposit. This is an indicator of the level of a bank’s asset composition or overloan, which is a percentage that is important in terms of financial performance or bank management.

And this following data is from the bank’s public management disclosure data at the ‘Korea Federation of Savings Banks’ Normally it is desirable to set the loan-to-deposit ratio at around 80 percent, but as you can see, the rate of the nation’s major savings banks was extremely high. Even Shinhan Bank’s figures were over 100 percent.

Then, let’s look specifically at how the loan-to-deposit ratio regulation is applied. The government first declared a regulation on the loan-to-deposit ratio on April 27, 2018, and put it on hold in 2019, then said it would gradually implement the regulation from the end of 2019 and the beginning of 2020. So, we’re not going to do it right away, but going to do it gradually, down to 110 percent in 2020, and down to 100 percent in 2021. And the main area of regulation is household loans. In line with the ever-increasing trend of household debt, the government imposed regulations on banks in a way that would give them more weighted control over their household loans. In that case, household loans account for an increase in the overall loan-to-deposit ratio, which was designed to reduce the amount of household loans naturally.

In government regulation, banks generally raise interest rates on loans. There’s a difference in the degree, but the bank’s interest rates are increasing, even though the base rate is on the decline. On the left is the bank’s general credit interest rate, and on the right is the split mortgage interest rate. Some banks tend to be declining, but in general they’re growing. Thus, despite the base rate cut, the bank was moving to reduce its lending, indicating that the effect of the cut was offset to some extent.

In conclusion, it is very difficult to predict the current economic situation because there are many variables such as trade conflict between the U.S. and China and the resulting changes in the exchange rate and export volume. Therefore, despite the rate cut, the impact of the domestic real economy is not being made in line with its intentions. Therefore, instead of lowering base interest rate more, we should look more at the impact of October’s rate cut and consider other policy measures while keeping an eye on the situation in the United States and China. So, our conclusion is to freeze the base interest rate.