


## South Korea: Transiting into a smaller government




## Microscope

South Korea's economy grew the most in 7-½ years in the third quarter, stoking speculation the central bank will raise borrowing costs for the first time since the collapse of Lehman Brothers Holdings Inc. GDP increased 2.9% in the third quarter from three months earlier, when it expanded 2.6%, according to Bloomberg. That was higher than a median estimate of 1.9% growth in a Bloomberg survey. South Korea's exports gained 5.1% in the third quarter from the previous three months, when they rose 14.7%. Corporate investment in factories and equipment climbed 8.9%, compared with a 10.1% in the second quarter. On the other hand, private consumption advanced 1.4% from the second quarter. Except the drop in government spending (-0.8%) and government-driven construction investment (-2.1%), overall figures indicate there has been an all-round recovery in market-oriented

sectors. South Korean Finance Minister Yoon Jeung Hyun said the GDP figures were a "surprise" and the nation may post full-year growth for 2009. It is generally expected the economy was strong enough to persuade the central bank to start a campaign to normalize interest rates, which have been at a record-low of 2.0% for the past eight consecutive months. Its governor, Lee Seong-tae, had said in August and September that the central bank was ready to raise interest rates soon unless property prices and a credit boom subsided, but significantly softened his tone in October. South Korea led a regional rebound with China and Singapore as companies including Hyundai Motor Co. and Samsung Electronics Co. reported surging profits, driven by exports. Meanwhile, South Korea's government will still stick to

increase spending 2.5% next year as it seeks to generate more jobs and boost support for lower-income earners. It is expected that total expenditure will rise to 291.8 trillion won, according to the Ministry of Strategy and Finance in its 2010 budget proposal statement in September. On the other hand, national debt is estimated to be 36.9% of gross domestic product next year, compared with previous estimate of 35.6% this year. As such, it is expected that South Korea will maintain the active role of fiscal policy in order to support the economic recovery. With regard to the monetary policy, South Korea's central bank kept its benchmark interest rate unchanged at a record low for a seventh month on September 10, while Governor Lee Seong Tae signaled it may increase borrowing costs to stem rising property prices. 

Although South Korea may tighten its monetary policy over the coming months, it is expected that the government will be committed to introduce a business-friendly environment for domestic and foreign investors. The government has already slashed corporate income tax rates to promote companies' competitiveness and job creation. The corporate tax rate has been reduced to 22% from 25% this year and will be further lowered to 20% from 2010 onwards. The top income tax rate will also be cut to 33% from 35% next year. Cutting these rates has been pursued on schedule as part of President Lee Myung-bak's tax policy proposal, part of his campaign platform, despite sometimes fierce opposition. To attract long-term capital, the government will introduce next year tax measures to support corporate research and development. Tax deductibility for research and development on developing new growth engines and ground-breaking technology will increase from around 3% to 6%, to 20% and 25% for large enterprises and from 25% to 30% and 35% for small and mid-sized companies. This is one of the most generous R&D incentives in the world. 

### MARKET BRIEFING


#### YTD % (local curr)

<b>US DJ</b>	9,972 (13.6%)
<b>Nasdaq</b>	2,154 (36.6%)
<b>Euro Stoxx 50</b>	2,886 (17.7%)
<b>HSI</b>	22,589 (57.0%)
<b>Japan NK225</b>	10,282 (16.1%)
<b>China Shanghai Composite</b>	3,107 (70.7%)
<b>Singapore</b>	2,715 (54.1%)
<b>India BSE30</b>	16,810 (74.3%)
<b>Brazil BOVESPA</b>	65,058 (73.3%)
<b>Aus All Ord</b>	4,859 (32.8%)
<b>US-10yr Bond</b>	Yield 3.49%


As at 23/10/09

## Insight: "Different Stages of a Bull Run"

The term bull market describes upward market trend and can be used to describe either the market as a whole or specific sectors and securities (stocks). Usually, a bull market is associated with increasing investor confidence, and increased investing in anticipation of future price increases capital gains. A bullish market trend in the stock market can often be divided into three stages. It begins before the general economy shows clear signs of recovery. The first stage could last for several months. Although the economy may grapple with debt-strapped consumers that led to economic collapse, value investors usually

come to the market at this stage for bargain-hunting. Finally, the economy starts to improve. Corporate earnings beat estimates. It comes to the second stage of a bull market. Rising consumer and business confidence, themselves all suggest that the economy is certainly moving toward recovery. For now, the evidence suggests an economic recovery around the globe will emerge later this year, and that should help the equity markets move higher. But, at the same time, investor should be cautious about the change of monetary policy. The final stage of a bull market is characterized by mania. Investors are taking more risk, as evidenced by the stronger performance of stock markets. This willingness by investors to take more risk suggests well support for higher equity prices. The market, however, can be suddenly turned around. 

## A-Z Financial Tools

**Quick ratio** is a measure of a company's liquidity and ability to meet its obligations. Quick ratio is obtained by subtracting inventories from current assets and then dividing by current liabilities, indicating the liquidity of the a company. In general, a quick ratio of 1 or more is accepted by most creditors; however, quick ratios vary greatly from industry to industry. 



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