

MEASURES TO STABILIZE FINANCIAL MARKETS

The government unveiled the financial market stabilization measures on March 24 to help provide sufficient liquidity to businesses and deploy market stability tools to absorb shocks in the financial markets amid the spread of COVID-19.

In order to address financing difficulties and help restore stability in the financial markets, the measures will increase the financing support package from KRW50 trillion to more than KRW100 trillion. This includes financing support through policy banks in the amount of KRW58.3 trillion and KRW41.8 trillion funds to help restore stability in the country's bond market, stock market and short-term money markets.

FINANCIAL MARKET CONDITIONS

The concern over a global economic slowdown due to the spread of COVID-19 has brought market volatility in the global financial markets, thus limiting corporate financing channels. From the beginning of March, stock prices in major economies plunged and the won-dollar exchange rate spiked due to a strong dollar.

Amid rising uncertainties surrounding the COVID-19, market anxiety has expanded to the corporate bond market and short-term money markets.

Unlike the past financial crises, the downturn in the financial markets today started from the real economy — an abrupt slowdown in consumption, production and investment, a breakdown in global supply chains, and a drop in global trade.

Due to the decline in domestic demand, a contraction in the real economy and financial market anxieties, it remains difficult to accurately predict the ripple effects of the current economic slowdown caused by COVID-19. Thus, preemptive and bold responses are required to bring stability to the markets.

KEY MEASURES

I. FINANCING SUPPORT FOR BUSINESSES: KRW58.3 TRILLION

A total of KRW 29.2 trillion in financing support for SMEs and small merchants will be provided.

- ▶ KRW12.0 trillion in emergency financing support for small merchants
- ▶ KRW5.5 trillion in special guarantees for SMEs and small merchants

- ▶ KRW3.0 trillion in full amount guarantees for small businesses
- ▶ KRW2.0 trillion in debt purchasing by KAMCO and debt adjustment
- ▶ KRW6.7 trillion through primary collateralized bond obligations (P-CBOs)

A total of KRW29.1 trillion in financing support for SMEs, middle market enterprises and large companies will be provided. As middle market enterprises and large companies are also facing financing difficulties from COVID-19, policy banks will provide the maximum financing support available at least for a short term while local financial companies will also actively participate in an effort to help ease their financing burdens.

- ▶ KRW21.2 trillion in new loans for SMEs and middle market enterprises (large companies on a case by case basis)¹
- ▶ KRW7.9 trillion in guarantees for SMEs and middle market enterprises with unfavorable credit histories²

II. CORPORATE BOND MARKET & SHORT-TERM MONEY MARKET STABILIZATION

- ▶ **BOND MARKET STABILIZATION FUND (KRW10 TRILLION + KRW10 TRILLION):** In order to prevent a further spreading of credit crunch in the corporate bond market and the short-term bond market, the government will help supplement the market demand by establishing a KRW10 trillion bond market stabilization fund at first and expand the fund by additional KRW10 trillion thereafter.

Considering the liquidity issue of the financial institutions, the initial capital call will be for approximately KRW3 trillion. The bond purchasing will start in the beginning of April for corporate bonds, commercial paper issued by blue-chip companies and financial bonds.

- ▶ **FINANCING FOR CORPORATE BOND ISSUANCE (KRW4.1 TRILLION):** Korea Credit Guarantee Fund (KODIT) will support the issuance of corporate bonds through primary collateralized bond obligations (P-CBOs)³

For middle market enterprises and large companies facing difficulties refinancing their corporate bonds, the state-backed financial institutions will provide KRW2.2 trillion financing support through a quick bond takeover program. The Korea Development Bank will take over 80 percent of corporate bonds for sale to KODIT, which will then issue P-CBOs.

Korea Development Bank will also directly purchase KRW1.9 trillion worth of investment grade conversion issue of corporate bonds.

¹ KRW5.0 trillion by Korea Development Bank, KRW10 trillion by Industrial Bank of Korea and KRW6.2 trillion by Export-Import Bank of Korea

² KRW5.4 trillion by Korea Credit Guarantee Fund and KRW2.5 trillion by Export-Import Bank of Korea

³ Total KRW6.7 trillion (KRW1.7 trillion at first and additional KRW5 trillion) already announced on March 19.

- ▶ **SHORT-TERM MONEY MARKETS (KRW 7 TRILLION):** In order to reduce market instability in the short-term money markets, including commercial paper and electronic short-term bonds, the following measures will provide liquidity to the markets.
 - a) KRW5 trillion liquidity for securities companies: KRW2.5 trillion for stock finance loans and KRW2.5 trillion through repo market financing by the Bank of Korea
 - b) KRW2 trillion in refinancing support from Korea Development Bank and KODIT for corporate commercial paper and electronic short-term bonds

III. ADDRESSING STOCK MARKET STABILIZATION MEASURES

- ▶ **STOCK MARKET STABILIZATION FUND (KRW10.7 TRILLION):** The 5 financial holding companies, 18 leading financial companies and other relevant institutions including the Korea Exchange will contribute in creating a KRW10.7 trillion stock market stabilization fund. The contributions to the fund will be made through capital calls and the fund will invest in KOSPI 200 index. Considering the liquidity issue of the financial institutions, the initial capital call will be for approximately KRW3 trillion. To provide incentives, the financial regulators will ease rules on risk-weighted capital requirement for the amount of contributions made by the financial institutions. The fund will be in operation in April.
- ▶ **TAX SUPPORT TO PROP UP DEMAND IN STOCK MARKETS:** The government will work to enable stock investment through individual savings accounts (ISAs) and seek ways to expand tax support.

FURTHER PLAN

The government and the financial institutions as well as market participants should all play a part in a concerted effort to bring stability in the financial markets. The private local banks should also actively partake in providing maturity extensions for business loans and establishing funds to stabilize markets.

Expediency in policy implementation is critical if these market stabilization measures are to have the greatest effect. Financing support through policy banks will be provided immediately, while the bond market and stock market stabilization funds will be established in early April.

In order to facilitate the provision of funding, the government will apply flexibility in its supervisory role over financial institutions concerning their performance evaluation and sanctions.

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