Financial Services Commission

Press Release

April 6, 2020

CURRENT SITUATION IN FINANCIAL MARKETS AND GOVERNMENT'S POLICIES

The FSC announced on April 6 its assessment of the current situation in the financial markets, and provided an explanation on the government's policies aimed at helping businesses and markets amid the COVID-19 crisis.

HOW DOES THE GOVERNMENT SEE THE CURRENT SITUATION?

The government is keenly aware of the urgency of the current market conditions and thus prepared on March 24 the KRW100 trillion emergency financial support package.

The Bank of Korea on March 26 unveiled its plans to provide liquidity through unlimited repo operations, and on April 2 announced that it will also review ways to lend to non-bank financial institutions.

Since the beginning, the core principle behind the government's policy has been to prevent businesses from going bankrupt due to a temporary liquidity crunch. As such, the government will work to provide the necessary financing support to the businesses and industries in need regardless of their size or sector.

WHAT IS THE CURRENT STATUS OF FINANCING FOR COMPANIES?

Corporate financing in the first quarter of 2020 increased by a large margin, up KRW61.7 trillion compared to KRW46.1 trillion in the same quarter last year, although the growth does not necessarily indicate that companies are facing liquidity shortages.

The demand and supply determine corporate financing. A rise in demand was met with an appropriate increase in supply from the financial institutions. The overall structure of corporate financing has shown some qualitative improvements with the short-term funding growing at a slower rate while the size of long-term funding has surged as shown in the table below.

(In trillion won, preliminary)

	Net issuance of CP & electronic short-term bonds	Net issuance of corporate bonds	Net increase in balance of corporate lending by banks	Total net increase
Net increase, Q1 2019 (a)	9.2	14.1	13.6	46.1
Net increase, Q1 2020 (b)	7.2	14.6	32.7	61.7
Change (b-a)	-2.0	+0.5	+19.1	+15.6

WHAT ABOUT THE GOVERNMENT'S SUPPORT FOR LOW-GRADE CORPORATE BONDS AND COMMERCIAL PAPER NOT COVERED BY THE BOND MARKET STABILIZATION FUND?

The bond market stabilization fund is aimed at supporting the issuance of investment-grade corporate bonds. If the Bank of Korea begins to offer lending support for non-bank financial institutions, it is expected to take some loads off the bond market stabilization fund, which may create some room for considering the purchase of certain types of low-grade corporate bonds as well.

For low-grade corporate bonds and commercial paper, other financing support programs such as primary collateralized bond obligations (P-CBOs) are available through policy banks. It is the government's policy to prevent bankruptcies due to a temporary liquidity shortage from COVID-19.

PRIOR TO THE PROVISION OF FINANCING SUPPORT TO LARGE COMPANIES, WHAT SELF-RESCUE MEASURES SHOULD HAVE BEEN TAKEN?

For businesses eligible to apply for the emergency support package, the government will make available financing support to all businesses regardless of their size or sector. However, the KRW100 trillion package cannot possibly cover all business financing demands.

Unlike small merchants and SMEs, many large companies still remain capable of financing their businesses through market mechanisms. The corporate financing support programs in the past also required self-rescue efforts by large companies, including a requirement to pay a certain portion for refinancing their debt and to buy back a portion of securities in P-CBO programs.

If it becomes necessary in the future, the government will draw up plans to further reduce the financing burdens for large companies.

HOW DOES THE SUPPORT PACKAGE AFFECT THE SOUNDNESS OF THE FINANCIAL INSTITUTIONS?

The soundness of the financial institutions remains strong currently. The banks' BIS ratio and bad debt ratio improved compared with the previous crisis levels.[1]

In the process of the implementation of the emergency financial support package, the government will work to minimize burdens on the financial institutions. The bond market stabilization fund will be operated in a way to effectively manage risks, and the government will also work to ease financial institutions' regulatory burdens with liquidity coverage ratio (LCR) and loan-to-deposit ratio (LTD).

[1] BIS ratio of domestic banks: 12.3% (end of 2008) → 15.3% (end of 2019)
Bad debt ratio: 1.14% (2008) → 0.77% (end of 2019)

WHAT MEASURES HAVE BEEN TAKEN BY THE GOVERNMENT TO EASE PRUDENTIAL RULES ON FINANCIAL INSTITUTIONS THAT ARE AT THE FOREFRONT OF DELIVERING THE FINANCING SUPPORT TO BUSINESSES?

The government will quickly work to ease regulatory burdens for financial institutions. The government announced on March 26 that it will temporarily lower the foreign exchange liquidity coverage ratio for banks from 80 percent to 70 percent for three months until the end of May. Along this line, the government will continue to closely communicate with experts to come up with a more flexible set of prudential regulatory measures, while promptly carrying out deregulatory measures in LCR, LTD and capital rules for contributing to the stock market stabilization fund.

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