



Press Release

February 4, 2016

FSC CONVENES MEETING OVER RECENT DEVELOPMENTS IN GLOBAL FINANCIAL MARKETS AND POLICY RESPONSE

The FSC convened a meeting with the FSS and relevant research institutions to review policy implications of recent developments in global financial markets and discuss our policy responses.

<ECONOMIC AND FINANCIAL MARKET CONDITIONS>

There are growing uncertainties in the global economy this year with a slowing Chinese economy and falling oil prices. The IMF cut its outlook for global economic growth in 2016 from 3.6% to 3.4%. As global economic conditions weighed on our economy, Korea's exports dropped 18.5% in January compared with the previous month, raising concerns about the country's economic slowdown. In response to such worries, the Korean government announced yesterday a stimulus plan including an injection of KRW 21trillion in the first quarter of this year through fiscal spending and policy financing in a bid to boost domestic demands and create more jobs.

Global financial markets are also facing increasing volatility with Fed's rate hike, China's financial market turmoil and declining oil prices. The Fed's rate increase last December has led to contraction in global liquidity, while accelerating capital outflows from emerging economies to advanced economies. Monetary policies among major central banks have become divergent as the BOJ cut its interest rates to minus 0.1 per cent last week, joining in the ECB's move to negative interest rates. The ECB also hinted a possibility of further quantitative easing. Compared with major economies, Korea's financial market stayed stable; however, volatility has recently increased to some extent in the local stock and currency markets. With increased volatility in global financial markets, foreigners' selling of Korean stocks has continued from last June until early this year. Fluctuations in the currency market have also increased with the won-dollar exchange rate surging to 1,219.3 won yesterday, a record high since July 2010.

<POLICY RESPONSE>

There is no quick fix for current global market risks, which are likely to persist for a considerable period of this year. The FSC will strengthen its monitoring on global financial market developments and look into policy implications for Korea's financial market to come up with timely and swift policy responses in case of sudden shocks in financial markets.

At the same time, we will manage domestic risks factors to prevent such risks from adding pressure on our economic and financial market conditions, combining with external risk factors.

We will thoroughly assess impacts that stronger prudential measures would have on the Korean financial sector and the real economy as we are preparing for adoption of Basel III capital and liquidity rules for banks, IFRS Phase 2 for insurers, and newly-amended NCR rules for brokerage firms.

For household debt management, the FSC will make sure households borrow within their repayment ability and pay back in installments from the beginning as banks adopt newly-established guidelines for strengthening their screening of mortgage applications.

Corporate debt management will be focused on seeking new growth drivers, not just restructuring ailing companies. The consultative body of government agencies will take into account how to adjust production capacity by sector and how to strengthen sector-wide competitiveness to set out a broader roadmap for restructuring of structurally vulnerable industries. Based on the direction, creditor banks will conduct swift restructuring of individual companies in each sector.

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