

500 BILLION-WON FUND TO BE ESTABLISHED TO STABILIZE THE STOCK MARKET

FSC Vice Chairman Kim Yongbeom convened a meeting with representatives of financial institutions this morning to examine financial market conditions and make sure that Korea's economic and financial conditions are well prepared to deal with the recent market turmoil.

SUMMARY OF VICE CHAIRMAN'S REMARKS:

▶ KOREA'S ECONOMIC AND FINANCIAL CONDITIONS

Korea's economic fundamentals remain strong, despite recent downward revision of growth outlook and concerns on global economic conditions.

From the macroeconomic perspective, Korea's economic growth is expected to stay well above 2%.¹ Its current account has recorded a straight 78-month surplus.² It maintains sound fiscal balance with 2.3 % of GDP in fiscal surplus. Korea's currency exchange and CDS premium are stable compared to those of major emerging markets.³

From the microeconomic perspective as well, Korea's economic and financial indices have improved since the financial crisis of 2008. Banks' short-term external debt ratio decreased,⁴ while BIS capital adequacy ratio increased.⁵ Banks have sufficient buffer against external shocks since they had turned net creditors⁶ in 2016.

The self-assessment above is in line with evaluations by credit rating firms. Moody's, S&P and Fitch maintain good credit ratings⁷ with Korea, highly evaluating its external and fiscal soundness.

▶ POLICY RESPONSES

Overall, Korea has strong fundamentals to weather the recent turmoil in domestic and global financial markets. Given its characteristics of a small open economy,

¹ 2018 economic growth outlook: (BoK) 2.7%, (IMF) 2.8%, (OECD) 2.7%

² current account surplus(\$billion): ('15) +165, ('16) +99.2, ('17)+78.5

³ CDS premium (as of Oct.25): (Korea) 39.7, (China) 70.6, (Brazil) 212.3, (Mexico) 133.6, (India) 108.6, (Indonesia) 155.6, (Turkey) 357.6

⁴ Short-term external debt ratio (banking institutions): 72.6%(September.2008) → 48.6%(June 2018)

⁵ BIS capital adequacy ratio: 10.87% (September 2008) → 5.48% (June 2018)

⁶ Banks are net creditors with USD208.4 billion of external assets and USD187.5 billion of external debt as of June 2018.

⁷ Moody's Aa2, S&P AA, Fitch AA-

however, Korea may not be immune to the effects from external and internal uncertainties. In particular, readjustment of asset prices with monetary normalization in major economies may increase volatility in financial markets.

Against this backdrop, the FSC will take measures to stabilize the stock market:

First, the FSC will create a KRW500 billion fund with securities-related institutions to support the stock market. Out of the fund, KRW300 billion will come from 'Kosdaq Scale-up Fund,' composed of investments by securities-related institutions⁸ and matching funds from private investors. The Kosdaq Scale-up Fund will be invested in Kosdaq-listed companies from early November. Securities-related institutions are planning to raise additional KRW 200 billion, if needed, to prop up Kospi and Kosdaq markets, depending on financial market conditions.

Second, the FSC will take strong actions against unfair trading activities that could undermine confidence in Korea's capital markets. Illegal short selling activities will be punished with no exception. The FSC will go ahead with an amendment to the Capital Markets Act to impose criminal charges and punitive fines against such unfair practices. The FSC's Capital Market Investigation Unit will put joint efforts with the FSS and KRX to crack down on market disruptive activities.

Last but not least, the FSC will come up with capital market reform measures to make Korea's equity market more attractive to investors. The measures will be focused on providing investors with diverse but stable investment opportunities to help more capital channel into capital markets; and providing companies with funds needed at each stage of its business lifecycle.

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⁸ Korea Exchange (KRX), Korea Securities Depository (KSD), Korea Securities Finance Corp (KSFC), Koscom, Korea Financial Investment Association (KoFIA), etc.