

GOVERNMENT TO CLOSELY MONITOR MARKET RISKS

The FSC held the 27th financial risk assessment meeting via teleconference on October 28, chaired by Secretary General Kim Tae-hyun. During the meeting, officials discussed issues surrounding the US presidential election, recent trends in the corporate bond and CP markets, anticipated discontinuation of LIBOR and other market conditions.

(RISK MONITORING) Market experts noted that the US presidential election, soaring global asset prices and the possibility of an interest rate hike and currency appreciation as potential external risks to the Korean economy. First, uncertainties surrounding the outcome of the US presidential election and the ensuing policy disparities on COVID-19 stimulus, tax policy and the recovery pace pose risks to the economy. Second, as asset prices have seen a steep rise, price volatility may pose another risk. Third, due to expectations of stimulus measures, interest rates have gone up in advanced economies, and depending on the movement of the dollar and yuan, there exist downside currency risks in the Korean economy.

(CORPORATE BOND & CP MARKETS) Despite the general recovery trend in corporate bond and CP markets due to the government's market stabilization efforts, there still exist disparities between low-rated and blue chip companies as well as between the corporate bond market and short-term money markets. The continuous decline of the spread of low-rated corporate bonds since June is a positive sign. However, the pace of the decline has been slow compared to high-rated bonds with the volume of total issuance yet to reach the level seen in the previous year. On the other hand, the low-rated CP and short-term debt issuance amount has recovered to a comparable level from the previous year. The FSC will continue to closely monitor corporate bond and CP markets and take stabilization measures using an SPV when deemed necessary.

(DISCONTINUATION OF LIBOR) With regard to the anticipated discontinuation of LIBOR from 2022, financial institutions have set up a task force to prepare response plans. The Korea Federation of Banks indicated that financial companies are planning to introduce fallback provisions to both new and existing contracts, which will indicate a transition to risk-free alternative reference rates. As the suspension of LIBOR may have an impact on financial institutions' risk management, customer relations, IT and accounting, etc., the KFB pledged to work for a smooth transition. In this regard, the FSC recommended that financial companies refrain from using LIBOR on new contracts and ensure that consumers are well informed about the discontinuation of LIBOR.

(OTHER MARKET CONDITIONS) With the recent tightening of household loans, there have been concerns about a possible hike in non-housing mortgage loans. However, there has not been any notable movements in the banking sector. The financial authorities will closely monitor the trend and take appropriate measures when it becomes necessary.

Business loans in non-banking sectors amounted to KRW178.4 trillion at the end of August 2020, rising 16.8 percent from KRW152.7 trillion at the end of 2019. In particular, mutual finance, with more than a half of business loans issued to self-employed business owners (57.9 percent), showed a relatively higher growth rate.¹ In order to help resolve financing difficulties of small businesses, the financial authorities will continue to make available lending support through emergency loan programs, while encouraging non-banking sectors to boost their loan loss provisions in preparation for a protracted pandemic situation.

On the issue of unlicensed investment consulting services providing advises on stock investment through instant messaging platforms, there have been numerous cases involving false or exaggerated advertisements leading to investment losses and damages to consumers. As such, the financial authorities will work to come up with plans to more effectively regulate these activities and protect consumers.

FINANCIAL SUPPORT PROVIDED²

(In trillion won)		
▶ EMERGENCY LOANS FOR SMALL MERCHANTS	TARGET	PROVIDED
- 1 st round of financial support (Feb 7~)	16.4	14.6
- 2 nd round of financial support (May 25~)	10.0	2.08

(In trillion won)		
▶ FINANCIAL SUPPORT FOR SMEs & MIDDLE MARKET ENTERPRISES	TARGET	PROVIDED
- Loans (Mar 16~)	21.2	21.2
- Guarantees (Apr 1~)	7.9	6.7

(In trillion won)		
▶ LIQUIDITY SUPPORT FOR CORPORATE BOND & SHORT-TERM MONEY MARKETS	TARGET	PROVIDED
- Liquidity support for securities firms (Mar 24~)	5.0	8.6
- Corporate bond and CP underwriting and refinancing programs (Mar 30~)	6.1	2.2
- Low-rated corporate bond & CP purchase program (Jul 24~)	20.0	1.7
- P-CBO issuance (Apr 1~)	11.7	2.6

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¹ Increase in business loans (from end-2019 to end-Aug 2020): banks (10.7%), savings banks (9.5%), mutual finances (19.4%)

² From February 7 to October 23, 2020