

GOVERNMENT TO SET UP DIAGNOSIS-RESPONSE FRAMEWORK FOR COVID-19 FINANCIAL MEASURES

Vice Chairman Doh Kyu-sang held the 38th financial risk assessment meeting via teleconference on April 8 to review risk factors in the economy and financial markets and discuss the establishment of a diagnosis-response framework for COVID-19 financial support measures.

The following is a summary of Vice Chairman Doh's remarks.

(CURRENT ECONOMIC AND MARKET SITUATION) There are signs of an economic recovery this year with strong exports and improvements in industrial output. The expectation for recovery is also growing as international organizations have revised up their growth forecasts for 2021. However, as the number of new infection cases has been on the rise recently, many small-sized businesses and self-employed are still experiencing difficulties.

At the same time, there are rising concerns about uncertainties in financial markets as liquidities around the world have grown to unprecedented levels. In this regard, the IMF and the FSB suggested the importance of risk management in financial sectors while also stressing the need to maintain adequate provision of financial support. Major economies are gradually adjusting their policies. The Chinese government is seeking to control liquidities and property market overheating. The US and Japan have rolled back some of the financial support measures while continuing with policies for recovery. Against this backdrop, the Korean government has also sought multidimensional ways to improve the COVID-19 financial response measures with a mid- to long-term perspective. As such, today's meeting will discuss ways to improve our COVID-19 financial response framework.

(DIAGNOSIS-RESPONSE FRAMEWORK ON COVID-19 FINANCIAL MEASURES) The government will set up a diagnosis-response framework on COVID-19 financial measures. First, a working group will be established to systematically and regularly monitor various indicators on virus prevention and quarantine, the real economy and financial sectors. Based on the working group's diagnosis on the situation, the authorities will then determine whether the COVID-19 crisis is at a stage of continuation, recovery or normalization. If the diagnosis points to a continuation of crisis, the government will maintain sufficient financial support. If it suggests the economy is at a recovery stage, the government will gradually phase out the level of financial support available over a sufficient time period. In this process, the government will closely watch policy trends in major economies and coordinate efforts with international organizations.

Based on this diagnosis-response framework, the current crisis situation is still at a continuing stage. As discussed earlier, there are high levels of uncertainties in terms of virus prevention and quarantine measures, and economic difficulties persist despite signs of an improvement. Therefore, it is necessary to maintain financial support at the current level. In this process, the government will closely manage risks, such as growing household debt and declining credit ratings for companies.

In addition, the government will redistribute available resources for more effective provision of support according to market demands. First, financial support for small merchants and SMEs will be boosted. The accessibility and utility of COVID-19 P-CBO support will be enhanced while loan maturity extensions and payment deferrals will continue to be provided. Second, the authorities will maintain support through the stock market and bond market stabilization funds while adopting a more flexible approach based on market conditions. Based on the opinions of market experts, the stock market stabilization fund needs no additional capital contributions considering strong market indicators. As such, there will be no extension of period for capital calls beyond the initially set date of April 8. However, the stock market stabilization fund will still be available until April 2023 to provide timely support when it becomes necessary. The bond market stabilization fund, which focused on providing support to high-rated companies, has about KRW1.4 trillion remaining out of KRW3 trillion in total. From now on, the main focus of support for the corporate bond market will be placed on the special purpose vehicle aimed at purchasing low-rated corporate bonds and CP, and KRW1.4 trillion in availability from the bond market stabilization fund will help contribute in this effort. As such, the basic frameworks of market stabilization facilities will be maintained to serve as a tripwire to financial markets.

(STRENGTHENING RISK MONITORING AND RESPONSE MEASURES) The authorities will maintain close monitoring of market risks to ensure a balanced implementation of financial response measures. The recent Archegos fallout shows that fragilities may exist under the surface of what appears to be stable conditions. Therefore, the government will closely monitor both the known risks, such as inflation expectations and interest rate hikes, as well as other potential risk factors.

Maintaining financial support and seeking financial stability may be contradictory but both need to be achieved to overcome the current crisis. Throughout the process, the government will ensure close communication with market participants.

COVID-19 FINANCIAL SUPPORT PROGRAMS¹

(In trillion won)

| ▶ EMERGENCY LOANS FOR SMALL MERCHANTS | TARGET | PROVIDED |
|---|--------|-------------|
| - 1 st round of financial support (Feb 7, 2020~) | 16.4 | 14.8 |
| - 2 nd round of financial support (May 25, 2020~) | 10.0 | 5.7 |
| Existing program | 7.0 | 5.29 |
| Special lending program for those affected by social gathering restrictions | 3.0 | 0.44 |

(In trillion won)

| ▶ FINANCIAL SUPPORT FOR SMEs & MIDDLE MARKET ENTERPRISES | TARGET | PROVIDED |
|---|--------|-------------|
| - Loans and guarantees (Mar 16, 2020~) | 37.8 | 39.0 |

(In trillion won)

| ▶ LIQUIDITY SUPPORT FOR CORPORATE BOND & SHORT-TERM MONEY MARKETS | TARGET | PROVIDED |
|---|--------|-------------|
| - Liquidity support for securities firms (Mar 24~Dec 31, 2020) | 5.0 | 10.5 |
| - Corporate bond and CP underwriting and refinancing programs (Mar 30, 2020~) | 6.1 | 2.2 |
| - Low-rated corporate bond & CP purchase program (Jul 24, 2020~) | 20.0 | 3.0 |
| - P-CBO issuance (Apr 1, 2020~) | 11.7 | 3.8 |

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¹ From February 7, 2020 to April 2, 2021