

GOVERNMENT TO CLOSELY MANAGE RISK OF RATE HIKE AND MAINTAIN SUPPORT FOR SMALL BUSINESSES

Vice Chairman Doh Kyu-sang presided over the 40th financial risk assessment meeting via teleconference on July 2 and discussed the effects of looming interest rate rises on financial markets and post-pandemic transition policies.

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

(RISK FROM INTEREST RATE HIKE) There are growing expectations for both domestic and global economy to recover from the pandemic following a strong economic rebound seen in the U.S. However, the prospect for rate hikes poses a new challenge to economies. The Fed in June indicated that it has begun discussions on tapering and the Bank of Korea has continued to suggest the possibility of rate hikes within this year. For market participants that have largely become accustomed to the low interest rate environment, it is time to manage risks associated with possible increases in interest rates.

Rate hikes are expected to have considerable effects on asset markets that have surged to record high levels on the back of abundant liquidities around the world. Unlike stock markets backed by strong fundamentals, the virtual asset and real estate markets are forecast to experience significant impact from monetary tightening. The virtual asset market is showing extremely unstable trends and housing prices surged to record levels by historical standards. Last week, the Bank of Korea identified recent asset price hikes as the main factor behind the financial vulnerability index reaching a record high level since the 2008 global financial crisis. In particular, the housing price increase in Korea in relation to income growth was found to be two to three times above the levels seen in major economies. As such, it is necessary to stay alert as experts warn about the risks of shifting monetary policy.

To help mitigate risks originating from excessive debt, the government will work on effective implementation of policies, such as the application of DSR on individual borrowers. In this regard, financial institutions should also work to help establish lending practices based on individual borrowers' repayment capability.

(POST-PANDEMIC TRANSITION) As the pace of the economic recovery has been faster than expected, there is a growing need for policy normalization. The working group¹ on COVID-19 financial measures forecasts that the economy will move into the recovery phase in the second half of this year under the condition that there are no disruptive events, such as the spread of COVID variants.

¹ Please click [here](#) to see the press release dated April 8, 2021.

However, for self-employed business owners and small merchants who are still reeling back from the downfalls of the pandemic, it may take longer to get back to where they were before the pandemic. Therefore, the government will work to prevent the cliff-edge effect on liquidity for those that still need support. The authorities will continue to provide support through the KRW175 trillion-plus emergency support programs, ensure that small merchants and SMEs are not overburdened by potential credit rating downgrades² and provide targeted financial support to small merchants through a supplementary budget. Assistance from the special purpose vehicle set up for purchasing low-rated corporate bonds and CP will continue to be available until the end of December this year.

Amid a changing environment away from abundant market liquidities and low interest rates, the government will work to preemptively manage risks and respond according to the plan.

COVID-19 FINANCIAL SUPPORT PROGRAMS³

(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	6.7
Existing program	7.0	6.13
Special lending program for those affected by social gathering restrictions	3.0	0.52

(In trillion won)		
▶ FINANCIAL SUPPORT FOR SMEs & MIDDLE MARKET ENTERPRISES	TARGET	PROVIDED
- Loans and guarantees (Mar 16, 2020~)	37.8	44.8

(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	3.6
- P-CBO issuance (Apr 1, 2020~)	11.7	5.4

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For press inquiry, please contact Foreign Media Relations at fsc_media@korea.kr.

² Please click [here](#) to see the press release dated May 6, 2021.

³ From February 7, 2020 to June 25, 2021