

AUTHORITIES INTRODUCE MEASURES TO STABILIZE CORPORATE BOND AND CP MARKETS

The FSC announced preemptive market stability measures on July 13 to help stabilize corporate money markets amid rising volatility in the corporate bond and CP markets and financing difficulties exhibited by some businesses due to the impact of recent market rate increases. The Korea Development Bank (KDB) and Korea Credit Guarantee Fund (KODIT)'s operation of the corporate bond and CP purchase programs¹ will be extended until March 2023 and the maximum purchase cap will be expanded to KRW6 trillion.²

CORPORATE BOND AND CP MARKET ASSESSMENT

The FSC along with the Financial Supervisory Service, other relevant institutions³ and market participants has been closely monitoring⁴ the corporate bond and CP markets amid concerns over increasing volatility in the corporate bond and CP markets due to recent rate hikes.

CURRENT SITUATION IN CORPORATE BOND AND CP MARKETS

Due to deteriorating conditions for issuing corporate debt amid expansions in interest rates and spreads, there have been concerns about a slowdown in the issuance of corporate debt and risk for refinancing particularly for low-rated and vulnerable businesses.

I. CORPORATE BOND⁵ MARKET SITUATION

(ISSUANCE) In H1 2022, the amount of corporate bonds (for both non-financial and financial businesses) issued was KRW89.3 trillion, a decline from the same period in the previous year,⁶ and the trend for low-rated (non-investment grade) businesses

¹ (a) Corporate bond purchase program (KDB), (b) Quick corporate bond takeover program (jointly operated by KDB, KODIT and creditor banks), (c) CP refinancing purchase program (KDB and IBK), (d) CP refinancing purchase program for A2-rated CPs (credit reinforcement to KODIT)

² Between April 2020 and June 2022, KRW3.5 trillion in corporate bonds and CPs purchased → Additional purchase of up to KRW6 trillion until March 2023

³ Korea Deposit Insurance Corporation, KDB, IBK, KODIT, etc.

⁴ 2nd financial risk response TF meeting (June 23, chaired by FSC Vice Chairman), relevant institutions' working-level meeting (June 28) and meeting with market participants (July 6, chaired by Director General for Financial Policy)

⁵ Based on public issuance (securities registration submitted)

⁶ Corporate bond issuance for H1 (in trillion KRW): 74.1 (2017-2019 average), 80.0 (2020), 102.7 (2021), 89.3 (2022)

(A-rating or lower) has been continuously declining since March.⁷

(INTEREST RATE AND SPREAD) With acceleration in monetary tightening by major economies and continuing rate hikes by the Bank of Korea, the issuing rates⁸ have increased and spreads⁹ have expanded too. Especially, corporate bond spreads in general have recently gone up higher than the highest point recorded during the COVID-19 pandemic era (June 2020).

(REFINANCING RISK) Corporate bonds (non-financial businesses) maturing in H2 2022 amount to KRW15.4 trillion, which is the largest since 2017, and the proportion of non-investment grade (A-rating or lower) bonds stands at 39.6 percent (or KRW6.1 trillion). Especially, refinancing periods for non-investment grade (A-rating or lower) bonds are heavily concentrated in July (KRW1.8 trillion) and October (KRW2.1 trillion), which raises potential difficulties of issuing refinancing bonds if rate hikes continue.

II. CP MARKET SITUATION

(INTEREST RATE AND SPREAD) The 91-day, A1-rated CP rate has increased from 1.58 percent in January 2022 to 2.36 percent on July 11 and the spread has expanded as well,¹⁰ weakening conditions for corporate financing.

(ISSUANCE) With the maturity of CPs being issued becomes shortened as more businesses issue shorter-term maturity CPs¹¹ and as there is a slight increase in the issuance of investment-grade CPs,¹² the business financing conditions have been made more difficult for low-rated (non-investment grade) and vulnerable businesses.

⇒ If the corporate bond market conditions deteriorate further in H2 2022, market demand may shift toward CP and short-term debt, which raises concerns about expanding volatility in the short-term money markets.

CORPORATE BOND AND CP MARKET SUPPORT MEASURES: EXPANDING SUPPORT FOR LOW-RATED (NON-INVESTMENT GRADE) BUSINESSES

Key measures include (a) extending the operating period of the corporate bond and CP purchase programs run by the KDB and IBK until the end of March 2023¹³ and (b) pursue additional purchase of up to KRW6.0 trillion in low-rated (non-investment grade) corporate bonds and CPs using the corporate bond and CP purchase programs.

⁷ Issuance for low-rated (non-financial) businesses (in trillion KRW): 1.3 (Jan 2022), 1.7 (Feb), 1.1 (Mar), 0.7 (Apr), 0.5 (May), 0.3 (Jun)

⁸ Interest rate on AA-/BBB- (3-yr, %): 1.855 (Jan 20, 2020, year-high)/7.799 (Jan 20, 2020, year-high) → 4.197/10.054 (Jul 11, 2022)

⁹ Spread on AA-/BBB- (3-yr, bp): 77.7 (Jun 2, 2020, year-high)/669.3 (Jun 10, 2020, year-high) → 87.7/673.4 (Jul 11, 2022)

¹⁰ A1/A2+ spread (relative to base rate, bp): 44.5/73.1 (Jan 2022), 39.2/66.3 (May), 61.0/88.0 (Jul 11)

¹¹ Balance of CPs issued with 3-month or less maturity (Jan 2022 → Jul 11, in trillion KRW, % from total in parentheses): 34.0 (14.1%) → 37.1 (16.0%)

¹² Proportion of A1-rated CP issuance (%): 91.2 (end-2021) → 91.6 (Jul 11, 2022)

¹³ Initially set to expire in September or December 2022.

I. CURRENT OPERATION STATUS

The corporate bond and CP purchase programs operated by the state-backed financial institutions have been introduced in March 2020 in response to growing risks to the corporate bond market in the wake of the COVID-19 pandemic. The programs have been purchasing corporate bonds and CPs of diverse ratings¹⁴ to help alleviate liquidity shortage in the bond market and facilitate issuance of low-rated (non-investment grade) corporate bonds and CPs whose financing conditions have been hit the most by the pandemic. The programs' purchase cap was set at KRW7.1 trillion in total, and as of the end of June 2022, KRW3.5 trillion in purchases have been made.

<Overview of Corporate Bond and CP Purchase Programs>

Program	Support Details	Purchase Cap
Corporate Bond Purchase Program (KDB)	<ul style="list-style-type: none"> - (Overview) Purchase newly issued or refinancing corporate bonds and sell them in market - (Purchase target) Publicly and privately issued corporate bonds (non-financial businesses) - (Rating) Large companies (BBB) / Middle market enterprises (BB) / SMEs (B or above) - (Operating period) Mar 30, 2020 ~ Sep 30, 2022 	KRW1.9 trillion
Quick Corporate Bond Takeover Program (KDB, KODIT and creditor banks)	<ul style="list-style-type: none"> - (Overview) KDB takes over refinancing corporate bonds and sells them to pre-determined buyers (securities firms, creditor banks, KODIT P-CBOs) - (Purchase target) Privately issued corporate bonds issued by non-finance businesses - (Rating) BBB or above - (Operating period) Apr 24, 2020 ~ Dec 31, 2022 	KRW2.2 trillion
CP Refinancing Purchase Program (KDB and IBK)	<ul style="list-style-type: none"> - (Overview) Purchase of refinancing CPs and electronic short-term bonds (1 to 12 month maturity) - (Purchase target) CPs and electronic short-term bonds issued by non-financial businesses - (Rating) A3 or above - (Operating period) Mar 30, 2020 ~ Sep 30, 2022 	KRW2.0 trillion
CP Refinancing Purchase Program for A2-rated CPs (Credit reinforcement by KODIT)	<ul style="list-style-type: none"> - (Overview) KDB obtains guarantees from KODIT and purchases refinancing CPs and electronic short-term bonds - (Purchase target) CPs and electronic short-term bonds issued by non-financial businesses - (Rating) A2 - (Operating period) Mar 30, 2020 ~ Sep 30, 2022 	KRW1.0 trillion

II. DETAILS OF PROGRAM REORGANIZATION

(a) Purchasing period extension

The operating period of the four corporate bond and CP purchase programs was initially set until the end of September (end-December for quick corporate bond takeover program) this year. However, in order to be prepared for continuing uncertainties in the corporate bond market amid rate hikes, the purchasing period for

¹⁴ B-rating or above for corporate bonds and A3-rating or above for CPs.

all programs will be extended until March 30, 2023.¹⁵

(b) Program integration and upward revision of purchase target

Currently, the four corporate bond and CP purchase programs are operated with a separate cap on each program,¹⁶ which makes it difficult to manage purchase caps more flexibly. As such, from now on, the four programs will be managed in an integrated way¹⁷ to allow quick purchases of assets (corporate bonds or CPs based on market demand)¹⁸ according to market conditions. The credit rating eligibilities for the integrated purchase program will be unified under the broader eligibility standard offered by the existing program to allow a more comprehensive purchase across both investment-grade and non-investment grade debt instruments.¹⁹ In addition, the purchase target will be expanded to make additional purchases of up to KRW6.0 trillion, making use of KRW3.6 trillion in the remaining portion of the purchase cap and KRW2.4 trillion redeemed from previous purchases.

FURTHER PLAN

The revised support measures for the corporate bond and CP purchase programs will go into effect immediately. The financial authorities will continue to maintain close monitoring of the corporate bond and CP markets through regularly held financial risk response taskforce meetings (monthly) and joint financial market review meetings (weekly). Authorities will also work on prompt implementation of additional measures depending on market situations when deemed necessary.

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¹⁵ Consultation and agreement will be sought from banks and other participating institutions before extending the period for the quick corporate bond takeover program.

¹⁶ (a) Corporate bond purchase program (KDB, KRW1.9 trillion), (b) Quick corporate bond takeover program (credit reinforcement by KODIT, KRW2.2 trillion), (c) CP refinancing purchase program (KDB and IBK, KRW2.0 trillion), (d) CP refinancing purchase program for A2-rated CPs (credit reinforcement by KODIT, KRW1.0 trillion)

¹⁷ Funds for the quick corporate bond takeover program will be managed separately to prevent a stoppage in the provision of corporate bond refinancing support for at-risk (default-prone) businesses.

¹⁸ Long-term and short-term, respectively.

¹⁹ (a) Corporate bond: Large companies (BBB) / Middle market enterprises (BB) / SMEs (B or above, but BBB or above for quick corporate bond takeover program) (b) CP: A3 or above