

FSC CHAIRMAN MEETS WITH HEADS OF BANKS AND DISCUSSES MARKET STABILIZATION MEASURES

FSC Chairman Kim Joo-hyun met with the heads of Korea Federation of Banks and twenty major banks on November 9 and held talks on financial market stabilization efforts. At the meeting, participants shared their outlook and views on financial market conditions and discussed (a) the banking sector's constructive role and action plan for market stabilization and (b) current difficulties in bank's financing and operation of funds as well as ways to resolve them.

SUMMARY OF REMARKS BY FSC CHAIRMAN

Rapid increases in interest rates are continuing to put stress on our economic situation. However, unlike in the previous crisis situations such as the financial crisis in 2008 and the COVID-19 pandemic in 2020, it is now difficult to handle this situation by lowering interest rates or expanding fiscal spending. Now is the time for the financial industry and the government to come together and respond to difficulties by effectively making use of all available capacities in our economy.

Under these circumstances, the banking sector has thus far provided a steady reinforcement to support vulnerable groups and supply liquidity in response to the recent turmoil in money market and bond market. The five major financial holding companies are making efforts to stabilize markets through their support plan announced on November 1.

To sustain stability in financial markets, it is necessary to look closely at both the "trees" and the "forest" as stated earlier by former Fed chair Ben Bernanke. In this regard, the banking sector, as the core of our financial system, should provide a leading role to stabilize market for the whole financial system over the banking sector. First, aside from abrupt rate hikes, there are concerns about credit crunch that may result from the collapse of market confidence. In this regard, the combined effects of the government's market stabilization measures and the banking sector's efforts to stimulate the flow of funds will significantly help businesses and micro-enterprises get financing support and stabilize bond and money markets. Second, there are concerns about liquidity shortage in the nonbank sector as the recent flow of funds in markets shows a concentration toward the banking sector. In addition, rapidly rising interest rates on loans are putting more stress on vulnerable groups and businesses. As such, in the process of dealing with interest rate hikes, banks are encouraged to consider ways to alleviate burdens on our economy. Third, regarding the recent depreciation in KRW currency value, its effects on banks and their foreign currency liquidity, banks are urged to monitor the situation with a sense of alertness.

If there are difficulties in the banking sector's financing or operation of funds, financial

authorities will actively seek ways to help resolve them. Along with the postponement in LCR (liquidity coverage ratio) regulatory tightening plan and easing of loan-to-deposit ratio already announced, authorities will lower the risk weight on banks' contributions to the stock market stabilization fund from the current level of 250 percent to 100 percent.¹ If there are other issues that need to be improved in the future, banks are encouraged to bring them up to the authorities' attention.

SUMMARY OF REMARKS BY BANKING SECTOR

Chairman of the Korea Federation of Banks Kim Kwang-soo and the heads of banks said that the banking sector has kept the amount bond issuance to a minimum level since the emergency macroeconomic meeting took place on October 23.² The banking sector has continued to supply liquidity to funding market by purchasing CPs (commercial papers), ABCPs (asset-backed commercial papers), electronic short-term bonds, selling repos (repurchase agreements) and continuing to operate money market funds at the same level as before.

<Market Stabilization Support Provided by 5 Major Banks from Oct.1 to Oct. 31>

Type	Support amount
Purchase of CPs, ABCPs and electronic short-term bonds	KRW4.3 trillion
Purchase of money market funds	KRW5.9 trillion
Purchase of special bank bonds and bonds issued by specialized credit finance business companies	KRW6.5 trillion

The role of banks is important in stabilizing markets because about KRW90 trillion out of the total KRW95 trillion in the five major financial holding companies' liquidity support plans³ will be supplied through banks. In this regard, other banks will also make market stabilization efforts together.

In particular, the banking sector is well aware of the current weak financing condition in the nonbank sector. Thus, banks will cooperate as much as possible to ensure that credit lines are maintained to the nonbank sector and make efforts to stabilize money market through purchase of CPs and ABCPs. Also, as it was previously suggested by the FSC Chairman, banks will give utmost consideration to market situations to avoid tight competition among banks which may bring about negative impact on the borrowing conditions of the nonbank sector.

The heads of twenty major banks participating in today's meeting agreed that now is the time for the financial authorities and all banks to join hands and make collective efforts. They pledged that the banks are committed to their principal function of intermediating funds between the real economy and financial markets while also making efforts to provide support for vulnerable groups.

For more information, please visit our websites in [Korean](#) and [English](#).

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¹ Official document to be issued by the Financial Supervisory Service.

² 5 major banks have not issued bonds since October 24 and plan to downsize their bond issuance compared to their initial plans until the end of this year.

³ Please click [here](#) to see the press release dated November 1, 2022.

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