Financial Services Commission

Press Release

December 19, 2022

AUTHORITIES MEET WITH BANKS TO DISCUSS RESUMPTION OF BANK BOND ISSUANCE

The FSC held a meeting with the related authorities[1] and the banking sector on December 19 to examine the banking sector's lending and borrowing situation and discuss resumption of bank bond issuance.

At the meeting, participants shared a common assessment that financial markets such as the bond market and foreign exchange market are gradually returning back to stability[2] as a result of expectations for a slower pace of monetary tightening at home and abroad, as well as the government and financial institutions' initiative to stabilize the market. However, as there still exist uncertainties in financial markets concerning price levels, trends of economic slowdown and the pace of monetary tightening in major advanced economies, participants reached to the same view that it is still vital to maintain a state of vigilance in responding to market situations.

Financial authorities expressed appreciation for the active market stabilization efforts the banking sector showed[3] and said that authorities will continue to make available policy-based support programs (bond market stabilization fund, corporate bond and CP purchase program, etc.) to ensure market stability.

At today's meeting, participants discussed how to restart bank bond issuance, which has been refrained so far for the goal of maintaining stability in the bond market. The banking sector raised the issue that there currently exist diverse types of demands for issuing bank bonds, for instance, to deal with their outstanding bonds coming to maturity soon, to respond to the outflow of consumer deposits, and to expand corporate loans, etc. In particular, considering the recent signs toward stabilization in the bond market and the year-end lending and borrowing needs of banks, the banking sector suggested the gradual restart of bank bond issuance at least for the purpose of refinancing bonds that are about to mature. Taking into account the latest supply and demand situation of bond markets as well as expert opinions, participants agreed, investor demand for bonds is growing, and thus, the bond market can sufficiently absorb refinancing of bank bonds. Participants also assessed that restart of bank bond issuance will contribute to market stabilization as it will help narrow spreads on bank bonds, and lower interest rates on deposits, loans and COFIX (Cost of Funds Index) rates, as well as ease banks' borrowing conditions.

[1] The Bank of Korea, the Financial Supervisory Service, Korea Federation of Banks and major banks
[2] Corporate bond interest rate (AA-, 3y, %): 5.73 (year-high, Oct. 21), 5.44 (Nov. 30), 5.23 (Dec. 16)
Commercial paper interest rate (%, day-to-day, bp): 5.53(+1, Nov. 30), 5.54 (year-high, Dec. 9), 5.46 (-2, Dec. 16)
USD-KRW exchange rate: 1,439.9 (year-high, Sep. 28), 1,318.8 (Nov. 30), 1,305.4 (Dec. 16)
[3] KRW95 trillion in liquidity supply announced by five major financial holding companies on Nov. 1; five major banks' pledge to refrain from issuing bank bonds; and purchase of commercial papers (CPs) and asset-backed commercial papers (ABCPs).

Therefore, the banking sector decided to gradually resume their bond issuance at a level that will not place burden on the market while maintaining close communication with financial authorities. At first, banks will begin to issue bonds to refinance those bank bonds maturing until the end of this year,[4] and for others maturing in January next year and thereafter, banks plan to carry out bond issuance more flexibly by dispersing issue dates and adjusting issue sizes while monitoring market situations. In line with this plan, financial authorities will closely monitor how bank bond issuance impacts the bond market, and keep close communication with banks to ensure a flexible issuance of their bonds in accordance with market situations. Especially, financial authorities showed their commitment to actively and flexibly operate the bond market stabilization fund as well as the corporate bond and CP purchase program to minimize crowding out of bonds issued by specialized credit finance companies or non-bank corporate entities.

In the future, financial authorities will continue close communication with financial sectors and market experts to ensure stability in bond market and money market. Considering special year-end money market circumstances, authorities will keep close tabs on market situations to prevent concentration of money flow resulting from the move of pension funds, reverse money move or competition for funding, and maintain and strengthen these efforts in 2023. Moreover, in order to be prepared for both domestic and external uncertainties, authorities will carry out strict supervision on financial institutions' risk management including their loss absorbing capacity and liquidity reserve. Meanwhile, authorities will also closely review and respond to the corporate financing situation and real estate financing issues.

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[4] Total amount of bank bonds maturing after December 19 until the end of December 2022 is KRW2.3 trillion.