

### **FSC HOLDS MEETING OVER RISK FACTORS IN FINANCIAL MARKETS IN 2016**

The FSC held a meeting on January 7, Thursday morning with the FSS, KRX and KCIF to examine internal and external risks in financial markets in 2016 and ensure prompt policy responses to stabilize markets if needed.

#### **GLOBAL FINANCIAL MARKETS**

Global financial markets started 2016 with increased volatility amid market anxiety over China's stock market plunge and geopolitical tensions such as the severance of diplomatic relations between Saudi Arabia and Iran and North Korea's nuclear test.

The Federal Reserve's monetary tightening began in December last year without causing considerable shocks to financial markets; however, the pace of rate hikes and subsequent movements in the dollar still remain uncertain.

Uncertainties in the Chinese economy – China's stock market turmoil and currency depreciation – could also threaten global financial market stability.

A series of events in recent few days this year alerted us to a rough year for global economic and financial conditions. The government will remain vigilant on future developments in financial markets to take swift actions if necessary.

#### **DOMESTIC FINANCIAL MARKETS**

Korea's financial markets are relatively calm in the face of external destabilizing factors. Affected by China's stock market plunge on January 4, KOSPI fell 2.2% on that day but shortly recovered 0.6% on the following day. North Korea's nuclear test on January 6 did not have large impact on the stock market.

However, the government keeps closely monitoring financial market conditions in response to further developments in China's stock market turmoil and North Korean nuclear issue.

#### **POLICY RESPONSE**

The FSC will closely monitor foreign capital flows in Korea's stock market, especially changes in capital flows by advanced countries with the U.S. interest rate hikes and possible capital outflow by fiscally distressed oil-producing countries. We will also push ahead our policy efforts for the inclusion of Korean stock markets in MSCI advanced market index.

The FSC will preemptively manage internal risks such as household and corporate debt to prevent such risks combining with external risks to worsen market conditions.

The FSC continues to manage household debt under the principle that “a borrower should take out a loan that he can afford and pay back in installment from the beginning,” while making sure banks’ tighter screening system for mortgage borrowers takes hold. In regard with corporate debt, swift restructuring will be carried out for 229 ailing companies selected and put under restructuring program last year. We will also come up with measures to stabilize corporate bond market.

Domestic financial institutions have sufficient capacity to absorb losses in case of market shocks; however, we will once again make sure that the financial system can maintain its soundness against unexpected external shocks by improving stress test system and strengthening risk management guidelines.

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For any inquiry, please contact Foreign Press & Relations Team at [fsc\\_media@korea.kr](mailto:fsc_media@korea.kr)