



2016 FINANCIAL POLICY FOCUS # 1 < PREEMPTIVE MANAGEMENT OF ECONOMIC RISKS >

The FSC set out its policy plan to manage economic risks facing the Korean economy in a first round of 2016 policy report to President Park Geun-hye on January 14.

Policy focus will be on:

- ✓ managing household and corporate debt proactively;
- ✓ increasing stability of Korea's financial market and financial sector;
- ✓ expanding policy support for microfinance, and;
- ✓ strengthening financial consumer protection.

1. Managing household debt

The FSC will manage household debt risks under the principle that “*debt should be borrowed within the borrower's repayment ability and paid back in installments from the beginning.*”

- Banks will adopt stricter standards for screening mortgage applications as newly-established screening guidelines are to be effective from February in Seoul and its metropolitan area, May in provincial areas.¹ We will scrutinize household lending by non-banking sector to prevent tighter constraints in the banking sector from causing a surge in household lending by non-banking sector.
- Policy incentives will be devised to stimulate a reverse mortgage scheme.
- KRW 26trillion will be provided to offer fixed-rate and amortized mortgages.
- New financial products will be devised to utilize a pool of key money deposits that tenants get back as they convert their lease to monthly rent so that they can pay their monthly rent with return on such products.

2. Managing corporate debt

Preemptive and prompt restructuring will be pushed forward for marginal companies and ailing industries.

- Troubled companies will be sort out through credit risk assessment to be placed under a debt workout program or file for court receivership depending on their chances of normalization.

¹ Please refer to the press release (Dec.14, 2015) titled 「Policy Direction for Household Debt Management」 for details.

- The government agencies will work out industry-wide restructuring for structurally vulnerable sectors such as shipbuilding, shipping, petrochemical, steel and construction industries.
- The FSC will encourage more private initiatives such as Uamco to carry out market-based restructuring to relieve restructuring burden on creditor banks, enable swift restructuring for businesses, and provide more investment opportunities for investors.

3. Increasing financial stability

The FSC will strengthen its monitoring on risk factors and continue to improve prudential measures in accordance with global standards. We will also continue to make policy effort to secure long-term and stable demand in our equities and bond markets.

- The FSC will conduct stress test and scrutinize financial institutions' soundness to make sure they have sufficient capacity to withstand shocks in case of a crisis.
- The FSC will continue to push forward South Korea's inclusion in MSCI advance market index; and come up with policy measures to boost supply and demand in corporate bond markets.

4. Expanding policy support for microfinance

Policy funds worth KRW 5.7trillion will be injected to support microfinance programs. Debt restructuring programs will be improved to provide more tailored service in accordance with borrowers' ability to repay. The FSC will stimulate lending markets for middle-rate loans – 10% or above – for those who have difficulty in borrowing from banks.

5. Consumer protection

Financial regulators will closely monitor sales practice of financial institutions to protect financial consumers from possible financial misconduct, while strengthening financial literacy education for financial consumers. The FSC will closely work together relevant authorities at home and abroad to crack down on financial crimes such as stock price manipulation, money laundering and financial fraud.

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