

GOVERNMENT ANNOUNCES KRW40 TRILLION FUND TO SUPPORT KEY INDUSTRIES

The government introduced measures to establish a KRW40 trillion fund to support key industries and help businesses retain jobs on April 22. In addition, the government will help provide more liquidity to the businesses in need through a KRW35 trillion increase in the emergency financial support package.

KEY PROVISIONS

I. ESTABLISHING A KRW40 TRILLION+ STABILIZATION FUND FOR KEY INDUSTRIES

- ▶ **SIZE:** A KRW40 trillion+ new stabilization fund will be established to support key industries, which will be operated by the Korea Development Bank. The fund will be raised by issuing state guaranteed fund bonds. In addition, private funds and special purpose vehicles will also contribute to the stabilization fund.
- ▶ **TARGET:** The fund will support key industries that have significant impact on employment and the real economy, including airline, shipping, shipbuilding, auto, general machinery, electric power and communication industries.
- ▶ **CONDITION:** (a) The autonomy in business management will be guaranteed in principle based on the condition of self-rescue efforts. (b) Businesses will be required to work on maintaining employment when receiving the support. (c) Businesses will be subject to limitations in executive compensation, dividend payouts, and share buybacks. (d) The support will be provided in a way that allows sharing of benefits from business normalization in the future.
- ▶ **OPERATION:** (a) Support will be provided in diverse ways through loans, payment guarantees and investments according to specific industry and business needs. (b) Investment and credit extension to related funds and special purpose vehicles will be permitted to promote inputs from private sector funding channels and their know-hows. (c) A council will be set up to ensure professionalism, accountability and transparency of the fund management.

II. EXPANDING EMERGENCY FINANCIAL SUPPORT PACKAGE BY KRW35 TRILLION

- ▶ **FINANCING SUPPORT FOR SMALL MERCHANTS (KRW10 TRILLION):** The 1st stage financing support made available to small merchants in the amount of KRW12

trillion has been expanded to KRW16.4 trillion through reserve funds. Specific implementation plans for the 2nd stage financing support in the amount of KRW10 trillion will be prepared shortly to prevent bottleneck effects.

- ▶ **EXPANDING P-CBO ISSUANCE FOR BUSINESSES (KRW5 TRILLION):** To help mitigate funding shortages for businesses, KRW5 trillion more in primary collateralized bond obligations (P-CBOs) will be issued this year.¹ Middle market enterprises and large companies will be encouraged to maintain a certain level of employment for a specific period of time if the number of middle market enterprises and large companies on P-CBO schemes rises beyond a threshold level.

- ▶ **PURCHASING CORPORATE BONDS AND CP TO STABILIZE MARKETS (KRW20 TRILLION):** A special purpose vehicle will be set up to purchase corporate bonds, commercial paper and short-term debts, including junk-rated bonds. State-backed financial institutions will take part and the Bank of Korea will provide support with liquidity. Middle market enterprises and large companies will be encouraged to maintain a certain level of employment for a specific period of time if the number of middle market enterprises and large companies buying privately-issued bonds increases beyond a threshold level.

FURTHER PLANS

The FSC will promptly take necessary steps to establish the stabilization fund for key industries. Emergency funding support for airline industry will be provided by the Korea Development Bank and the Export-Import Bank of Korea prior to the launching of the fund. Meanwhile, the airlines will be encouraged to pursue their own self-rescue efforts. Due to the contingent nature of the crisis, the fund will be operated on a temporary basis for five years.

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¹ P-CBO issuance in 2020: KRW1.7 trillion → KRW6.7 trillion
P-CBO issuance over three years: KRW6.7 trillion → KRW11.7 trillion