

Korea to raise funds to stabilize bond, stock markets

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Financial Services Commission (FSC) Chairman Eun Sung-soo, right, announces measures to stabilize the domestic financial market at the Government Complex Seoul, Thursday. Left is Deputy Prime Minister and Finance Minister Hong Nam-ki. / Courtesy of FSC

By Park Jae-hyuk

The government decided Thursday to raise two separate funds to stabilize the country's bond and stock markets, as the central bank's rate cut and the regulator's temporary short-selling ban had limited impacts on the financial market that has tumbled since the outbreak of COVID-19 pandemic.

The specific action plans for the funds will be announced after the second emergency economic council meeting scheduled next week.

Financial Services Commission (FSC) Chairman Eun Sung-soo said the size of the bond market stabilization fund will exceed 10 trillion won (\$7.7 billion).

During the 2008 global financial crisis, the government raised a bond market stabilization fund worth 10 trillion won to supply liquidity through investments in corporate bonds of companies suffering financial difficulties.

The stock market stabilization fund raised at that time was sized 515 billion won, and it was injected into the domestic stock market from November 2008 to March 2009.

The FSC chairman said he will discuss details about the funds with bank CEOs, Friday, and with financial lobby

group heads next Tuesday, because banks, brokerages and insurers will make investments in those funds.

“We put all our options used previously on the table,” Eun said during a press conference at the Government Complex Seoul, which was held after the first emergency economic council meeting Thursday.

Deputy Prime Minister and Finance Minister Hong Nam-ki told reporters the stock market stabilization fund will be used temporarily until the stock market recovers.

“The fund will be used for investments in major market index-linked products, not individual stocks, in order to pursue stabilization of the overall stock market,” he said.

In addition to the funds, the government will issue primary collateralized bond obligations (P-CBOs) worth 6.7 trillion won over the next three years to support businesses with relatively lower credit ratings.

When corporate bonds purchased by the state-run Korea Development Bank are sold to their main creditor banks and the Korea Credit Guarantee Fund (KODIT), the KODIT will issue the new P-CBOs to stabilize the market, according to the finance ministry.

“The measures we announced cannot be enforced without support from all market participants,” the FSC chairman said. “I ask for the understanding of our fellow citizens and financial firms.”

Some market observers expect the financial authorities may carry out additional measures in its contingency plans, such as shorter trading hours and tighter stock price limits, if the financial market continues to remain volatile.

The financial regulator is also reportedly considering temporary suspension of the stock market in the worst-case scenario.

“I know the market will also test the government, but we are fully aware of the problems and have a strong will and ability to solve the problems,” Eun said.

“Investors may want more drastic policies. But as you know, actions taken in other countries could not stabilize their markets, so we have deliberated over the effectiveness of those measures with a cautious approach. We have never been complacent about the current situation.”