

Korea's bond-stock stabilization fund to place heavy burden on financial majors

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South Korea's financing plans for its 30.7-trillion-won (\$24.9 billion) emergency package to stabilize bond and stock markets are starting to take shape, but will likely burden the financial sector grappling with increased risks from the coronavirus fallout.

The bond market stabilization fund worth 20 trillion won is likely to follow past arrangements and be put together depending on the size of the financial companies, with minor adjustments reflecting current times, according to industry sources on Wednesday.

Korea set up its first bond market stabilization fund of 10 trillion won at the height of the global financial crisis in December 2018. The state-run Korea Development Bank

(KDB) had contributed 2 trillion won, with other banks chipping in a combined 6 trillion won. Insurers and brokerages shouldered 1.5 trillion won and 500 billion won, respectively.

The fund operated on a “capital call” basis, meaning credit could be taken out upon demand.

The fund was revived in January 2017 as financial markets showed signs of instability. KDB again put in 2 trillion won but the banks’ share had been trimmed to 4.6 trillion won, with KB Kookmin Bank contributing 720 billion won, Woori Bank 710 billion won, Shinhan Bank 670 billion won, Hana Bank 680 billion won, and NH Nonghyup Bank 590 billion won.

In the recent package, the government is expected to first pool 3 trillion won through capital call, with the funds to be collected in ratios in line with previous cases.

For the additional 10 trillion won, the allocation ratio would be adjusted to reflect the recent changes in the asset sizes of financial companies.



As for the 10.7-trillion-won fund to stabilize the stock market, Korea's five major financial holding companies – Shinhan, KB, Hana, Woori and NH Nonghyup – are each expected to shoulder 1 trillion won, with other financial firms and related companies to make up the rest.

The burden is high on the financial groups as they have to rely mostly on their banking arms, which are already under great strain to finance the bond market funds.

The companies also fear a drop in their BIS capital adequacy ratio, an international barometer of financial soundness, as stocks are higher risk assets compared to bonds. To ease some of these concerns, financial authorities are considering lowering the risk weighting of stocks in the stock market stabilization fund from the current 300 percent.

Even the safety of bonds is now in question. Unlike the 2008 financial crisis, the impact of the coronavirus on the real economy has been hard, raising the credit risk

of many corporate bonds.

The Bank of Korea is expected to provide liquidity for half of the 30.7-trillion-won fund. While details have yet to come out, it is likely to provide loans to financial companies by taking the government debt and monetary stabilization bonds they own as collateral.

What is more important, according to industry insiders, is injecting fresh capital, as putting up such securities as collateral would only worsen the companies' financial integrity.

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