

Major banks seen to shoulder bulk of bond fund

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(Yonhap)

Five major banks in South Korea are expected to contribute to nearly two-thirds of an envisioned bond market stabilization fund, sources said Wednesday.

Seoul unveiled an emergency financial aid package Tuesday, which calls for a 10 trillion-won bond market stabilization fund in early April to help coronavirus-wracked businesses raise money.

Several dozens of local financial companies will contribute an additional 10 trillion won to the fund later. More than 20 major financial firms will also set up a stock market stabilization fund worth 10.7 trillion won to prop up the shaky local stock market.

According to the sources, the five leading lenders -- Shinhan, KB, Hana, Woori and NH Nonghyup -- are likely to contribute 6.7 trillion won to the initial bond stabilization fund.

The amount of investment for each bank will be set on the basis of their asset sizes, they added.

The spread of COVID-19 has hammered the South Korean bond market despite rate cuts in major economies, including the United States, to minimize the economic fallout from the illness.

The US Federal Reserve has conducted two emergency rate cuts, slashing its base rate by a whopping 1.5 percentage points to a target range of 0-0.25 percent.

The Bank of Korea followed suit last week, trimming its own rate by 0.5 percentage point

to 0.75 percent in its first emergency rate reduction in more than a decade.

Meanwhile, the country's five major financial holding groups -- Shinhan Financial, KB Financial, Hana Financial, Woori Financial and NH Financial -- are expected to contribute 1 trillion won each to the stock market stabilization fund. The remainder will likely be shouldered by 18 major non-bank financial firms and related agencies.

Industry watchers said the flagship lenders of the five holding firms may have to contribute a considerable amount of money to the stock fund on top of investments in the bond fund.

Contributions to the fund for riskier stocks may result in dragging down their capital adequacy ratios, a key measure of financial soundness, they added.

The coronavirus outbreak has pounded the local equity market as well. The benchmark Korea Composite Stock Price Index (KOSPI) has tumbled 32.5 percent this year as of Monday, before rising 8 percent Tuesday on government measures to prop up reeling businesses and the volatile financial market. (Yonhap)

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