Pulse by Maeil Business Newspaper

print

BOK to offer $8 bn loan program for financial institutions backed by corporate debt

2020.04.17 11:05:27 | 2020.04.17 11:55:22

South Korea's central bank will launch a 10 trillion won ($8.1 billion) loan program for banks and non-bank financial institutions by accepting corporate bonds as collateral for the first time in an emergency action to alleviate liquidity strains from the coronavirus pandemic.

This is the first time the Bank of Korea (BOK) has invoked an exceptional clause to help out non-banking financial institutions since the 1997 financial crisis. It also would be the first time in BOK history to accept corporate debt as collateral.

The special credit capped at 10 trillion won will become available for three months from May 4, with the loans to be granted for up to six months, the BOK announced Thursday after an extraordinary monetary policy meeting.

Bond prices turned lower despite the fresh monetary action. The three-year government bond yielded 1.009 percent in Friday morning, up from 0.982 percent in the previous closing. The 10-year bond yield gained 2.9 basis points to 1.440 percent.

The BOK said it would only recognize corporate debt of less than five years with a rating of AA- or higher as collateral for the lending facility. The interest rate would be set 85 basis points over the 182-day monetary stabilization bonds, which would make it around 1.54 percent. The size of the loan would be limited to 25 percent of a company's equity capital.

The BOK said the latest move was "a precautionary measure to prepare for emergencies."

It added the size and duration of the loan program could change depending on market situations.

Corporate bond markets have stabilized somewhat after a series of actions taken by the BOK to shore up market liquidity amid growing market uncertainty from the COVID-19 pandemic.

The central bank in late March said it would supply "unlimited" amount of liquidity over the next three months by purchasing local bonds in repo operations every week. It also agreed to accept a wider range of collateral, including notes issued by state-run companies, and expanded the list of bonds it can purchase to include mortgage-backed securities and special bank bonds.

The latest move is seen as a preemptive action by the BOK to head off any liquidity crunch that could arise from the debt obligations each month.

By Song Min-geun, Kim Hyung-joo and Kim Hyo-jin