

## English News

## S. Korea to reactivate bond market stabilization fund

The government will reactivate a 10 trillion won bond market stabilization fund soon

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South Korea will reactivate a bond market stabilization fund on the first day of April, 12 years after the government introduced its bond market stabilization fund in 2008 during the financial crisis. Initially 10 trillion won will be pumped into the bond market.

The government will reactivate the bond market stabilization fund on April 1, said industry sources on March 23. Financial Services Commission chief Eun Sung-soo decided to reactivate the fund during a meeting with the heads of eight banks last week. IBK Asset Management will manage the fund.

The bond market stabilization fund was created in November 2008 during the global financial crisis. Banks including the Bank of Korea (BOK) provided eight trillion won while securities firms and insurance companies put around two trillion won in the fund. The relief came in the form of a capital call, which is basically the act of collecting funds from partners whenever the need arises. The BOK injected liquidity to the fund via purchasing repurchase agreements.

The fund launched in 2008 mainly invested in bank bonds, corporate bonds and bonds issued by credit finance corporations that have a credit rating of AA- or above, project financing asset-backed commercial papers (PF-ABCP) with a credit rating of A2- or above and primary collateralized bond obligations (P-CBO).

Market insiders say that the fund played a positive role in stabilizing the bond market then. After mid-December 2008 when the fund started funding in earnest, credit spreads narrowed rapidly and the fund was practically deactivated at the end of October 2009. Total funding amount was around 4.4 trillion won, which was half the initial plan.

Market insiders expect the bond market stabilization fund will possibly help revive investor sentiment. "The interest rate movement was stabilized after introducing the

bond market stabilization fund in the past. Given the BOK's purchase of government bonds and South Korea's currency swap deal with the United States, the recent interest rate movement will be eased," said Hi Investment & Securities analyst Kim Sang-hoon.

The government is reportedly discussing the exact size of the fund with lenders.

(By reporter Lee Ji-hye)

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