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Korea: Bank Recapitalization Fund

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Yale Program on Financial Stability

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Abstract

Following the collapse of Lehman Brothers on September 15, 2008, a number of foreign governments enacted stabilization measures to protect their domestic economies in the wake of the global credit crunch. The Bank Recapitalization Fund (the Fund), announced by the South Korean government on December 18, 2008, and implemented on February 15, 2009, was one such intervention intended to assist Korean commercial banks in strengthening their capital bases and thus restore normal lending practices between banks and nonfinancial institutions. Invoking its authority under Article 65, Section 3 ("Emergency Credit to Financial Institutions"), of Chapter IV of the Bank of Korea Act, the government committed up to KRW 20.0 trillion for the purchase of preferred shares, hybrid securities, or subordinated debt from participating banks. Each bank wishing to utilize the fund was required to sign with the Korean government a Memorandum of Understanding (MoU) stating its commitment to using the funds gained from the sales to support the real economy. Continued individual usage, interest rates, and restrictions were determined based on the institution's adherence to the MoU terms. On March 31, 2009, the Fund purchased approximately KRW 4.0 trillion in hybrid securities and subordinated debt from eight Korean banks and financial institutions. By December 2011, the government had recovered KRW 2.8 trillion through bond sales and bank buyback arrangements. The remaining KRW 1.2 trillion was repaid to the government by August 2016, at which point the Fund ceased operations.

Keywords: capital injection, capital adequacy ratio, Financial Services, Commission, Global Financial Crisis, South Korea

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[1] This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering the responses to the Global Financial Crisis that pertain to broad-based capital injection programs. Cases are available from the *Journal of Financial Crises* at https://elischolar.library.yale.edu/journal-of-financial-crises/.

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South Korea: Bank Recapitalization Fund

At a Glance

In the wake of Lehman Brothers' collapse on September 15, 2008, governments around the world enacted stabilization measures to protect their domestic economies from the massive disruption in global credit markets. Among them, the Republic of Korea sought to implement a series of short-term interventions that would both boost liquidity and restore healthy lending between banks and nonfinancial institutions, particularly small and midsize enterprises (SMEs). One such program was the Bank Recapitalization Fund (the Fund), announced on December 18, 2008, and implemented on February 15, 2009, as part of the Financial Services Commission (FSC) plan of action in response to the Global Financial Crisis.

Summary of Key Terms	
Purpose: To strengthen the capital base of banks in order to encourage lending to nonfinancial institutions, particularly SMEs, through the purchase of preferred shares, hybrid securities, or subordinated debt from Korean commercial banks.	
Announcement Date/Operational Date	December 18, 2008/ February 15, 2009
Expiration Date	August 2016
Usage	KRW 4.0 trillion by eight private banks and financial institutions
Participants	Woori Financial Holdings, Woori Bank, Kookmin Bank, Hana Bank, NH Bank, Suhyup Bank, Kyongnam Bank, Kwangju Bank
Overseer	Financial Services Commission, Bank Recapitalization Fund Oversight Committee
Legal Authority	Article 65, Section 3 ("Emergency Credit to Financial Institutions"), of Chapter IV of the Bank of Korea Act

Invoking its authority under Article 65, Section 3 ("Emergency Credit to Financial Institutions"), of Chapter IV of the Bank of Korea Act, the Korean government committed up to KRW 20.0 trillion[3] for the purchase of preferred shares, hybrid securities, or subordinated debt from Korean commercial banks. The funds were to be raised from a combination of both private and public sources—KRW 10.0 trillion from the Bank of Korea, KRW 2.0 trillion from Korea Development Bank, and KRW 8.0 trillion from institutional and private investors.

Korean commercial banks wishing to participate in the Fund were required to sign with the Korean government a Memorandum of Understanding (MoU) stating their commitment to assisting the real economy. Progress—or lack thereof—toward these objectives determined individual usage caps, interest rates, and other restrictions. After having

[3] KRW 1.0 = 0.00097 USD.

received approval from the FSC, banks could then access the Fund on a capital call basis when in need of liquidity.

On March 31, 2009, the Fund initiated its first round of bond purchases—KRW 3.5 trillion in hybrid securities with 30-year maturities and KRW 500 billion in subordinated debt with maturities of five years and nine months—from eight banks and financial institutions. By the end of November 2011, a total of KRW 1.3 trillion had been repaid through the combined sale of KRW 503.0 billion in subordinated securities on the open market and KRW 800.0 billion in hybrid security buybacks by the issuing banks. On December 9, 2011, the government initiated an early repayment scheme whereby banks were allowed to buy back their hybrid securities before maturity. A total of KRW 1.5 trillion was recovered through this process, and the remaining KRW 1.2 trillion was repaid to the government by August 2016.

Summary Evaluation

The Korean government viewed the early repayment scheme as an indication of the Fund's success in helping banks to recover from the negative impact of the Global Financial Crisis. However, a report by the National Assembly Budget Office noted that the FSC may not have done enough to establish the program in a timely manner, as many of the stronger banks had already raised their Tier 1 capital ratios by the time the Fund became operational.

South Korean Context 2007–2008	
GDP (SAAR, nominal GDP in LCU converted to USD)	$1.2 trillion in 2007 $1.1 trillion in 2008
GDP per capita (SAAR, nominal GDP in LCU converted to USD)	$24,086 in 2007 $21,350 in 2008
Sovereign credit rating (five-year senior debt)	As of Q4, 2007: Fitch: AA Moody's: A2 S&P: A+ As of Q4, 2008: Fitch: AA Moody's: A2 S&P: A+
Size of banking system	$1.1 trillion in total assets in 2007 $1.0 trillion in total assets 2008
Size of banking system as a percentage of GDP	89.9% in 2007 96.8% in 2008
Size of banking system as a percentage of financial system	Data not available for 2007 Data not available for 2008
Foreign involvement in banking system	Data not available for 2007 77% of total banking assets in 2008
Government ownership of banking system	Data not available for 2007 22% of banks owned by the state in 2008
Existence of deposit insurance	100% insurance on deposits up to $41,960 for 2007 100% insurance on deposits up to $41,960 for 2008

Sources: Bloomberg, Cull, Martinez Peria, and Verrier 2018, World Bank Global Financial Development Database, World Bank Global Financial Development Database, and World Bank Deposit Insurance Dataset.

I. Overview

Background

Due to its success in overcoming the market volatility caused by the Asian Financial Crisis of 1997, the Republic of Korea was thought to have been relatively more prepared than its Western counterparts to manage the economic fallout from the Global Financial Crisis (Lee and Rhee 2012). Despite having strengthened its regulatory institutions and policies, however, Korea was greatly impacted by the subprime mortgage downturn in 2007. This was partially due to the fact that during the first half of 2008, overseas lenders collectively withdrew $886 million, and net foreign direct investment turned negative for the first time since 1980 (Fackler 2008). Such a large divestment would later exacerbate Korea's inability to repay its external debts and, consequently, the relatively stable economy remained vulnerable to exogenous shocks (Harden 2008).

The summer of 2008 brought with it a precipitous decline in confidence as the stock market dropped 38% and the Korean won fell 30% against the dollar. In alarmed response, both banks and major corporations, such as Hyundai and Samsung, began hoarding domestic currency (Harden 2008; Sang-Hun 2008). The failure of Lehman Brothers on September 15 aggravated matters considerably, sending global credit markets into chaos and driving further anxieties over the strength of Korea's export markets and foreign currency reserves. As the state of the broader economy worsened, individual domestic banks began to experience the effects of the crisis more directly. Woori Bank, one of Korea's largest lenders, faced a serious liquidity shortage when overseas banks began to refuse to roll over many existing loans and instead insisted that Woori pay its maturing obligations in dollars (Fackler 2008). The government responded by supplying the bank with $280 million in dollar loans.

This lending crisis spread rapidly as investors lost confidence in Korean banks' abilities to honor their maturing foreign currency loans. Following the collapse of Lehman, capital outflows totaled $42.8 billion between Q4 2008 and Q1 2009 (Kim 2009). Such a large selloff, coupled with the depreciation of the won and rising borrowing costs, caused Moody's to declare Korea to be "one of the few banking systems in Asia where domestic deposits are insufficient to fund loans" (Sang-Hun 2008). Furthermore, S&P downgraded the Big Four Korean banks—Kookmin Bank, Woori Bank, Shinhan Bank, and Hana Bank—from "stable" to "negative" on October 1. Their ability to raise foreign capital thus continued to decline (Gup 2010).

Having relatively recently opened its market to the international community, Korea did not have access to the same emergency sources of foreign currency reserves as did other countries. It was also more susceptible to market instability due to its transparency and openness to foreign investment (Fackler 2008). In response to the deleterious effects of the Global Financial Crisis, the Korean Financial Services Commission (FSC) sought to calm and protect domestic markets by proposing a comprehensive set of stabilization measures to be enacted throughout 2009. While other interventions, such as the State Guarantee of External Debt of Korean Banks (see Engbith 2020), had been announced previously in

October 2008, the government designed a coordinated response to address the ongoing market volatility. Aside from the Bank Recapitalization Fund (the Fund), the new plans provided for the establishment of the Bond Market Stabilization Fund, the Stock Market Stabilization Fund, and the Bank Capital Expansion Fund. The FSC also issued new guidelines for the restructuring of distressed companies and tightened supervision of the financial derivatives market.

Program Description

On December 18, 2008, the FSC released its agenda and recommendations for the upcoming 2009 fiscal year. Included in those plans was a provision for the creation of the Bank Recapitalization Fund, an intervention designed to assist Korean commercial banks in replenishing capital and lending to the domestic economy by raising capital adequacy ratios by 1.5%. Officially implemented on February 15, 2009, and jointly administered by the FSC and the Bank Recapitalization Fund Oversight Committee, the Fund was founded under the legal authority granted by Article 65, Section 3 ("Emergency Credit to Financial Institutions"), of Chapter IV of the Bank of Korea Act. Importantly, its establishment allowed the government to strengthen the capital base of all banks—even those meeting the Bank for International Settlements (BIS) capital requirements of 9%—to encourage lending to nonfinancial institutions, particularly small and midsize enterprises (SMEs), through the purchase and resale of preferred shares, hybrid securities, or subordinated debt from Korean commercial banks.

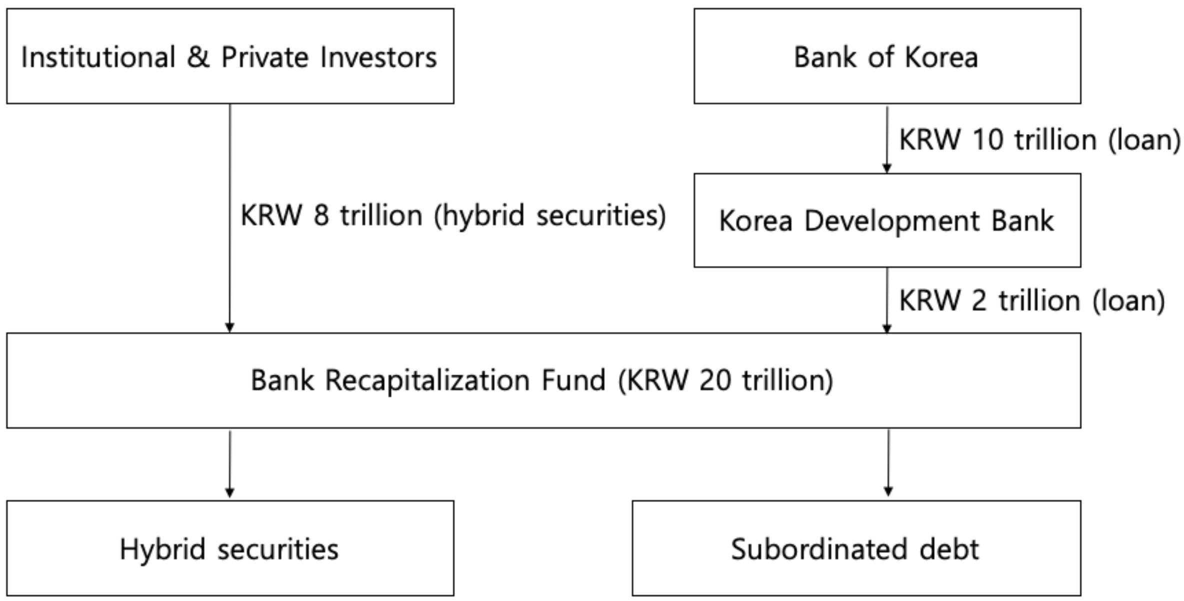
The Korean government committed up to a total of KRW 20.0 trillion[4] (2% of GDP) for Fund purchases. The Bank of Korea (BOK) first utilized the Korea Development Bank (KDB) as a conduit to channel KRW 10.0 trillion in loans to the Fund. This was due to the fact that Article 80 of the Bank of Korea Act limited loans to profit-making enterprises (i.e., nonfinancial institutions like the Fund) only when "there [was] a severe deflation of monetary credit." Because that was not the case at the time, the BOK lent to the KDB (a financial institution) under Article 65, Section 3 ("Emergency Credit to Financial Institutions"), of Chapter IV of the Bank of Korea Act.[5] In addition to acting as a passthrough for the central bank loans, the KDB lent KRW 2.0 trillion to the Fund, bringing the total to KRW 12.0 trillion. The government intended to raise the final KRW 8 trillion by purchasing banks' subordinated debt and hybrid securities through the Fund and selling them to institutional investors in the form of securitized bonds

Of the KRW 20.0 trillion allocated, the Fund used KRW 10.0 trillion for the purchase of preferred shares (KRW 2.0 trillion) and hybrid securities (KRW 8.0 trillion); it utilized the other KRW 10 trillion to acquire subordinated debt (FSC 2009a). See Figure 1 below:

[4] KRW 1.0 = 0.00097 USD (World Bank).

[5] Article 80 has since been amended to allow the Bank of Korea to lend to private entities "when severe impediments to obtaining funds from financial institutions occur or when there is a strong likelihood of their occurrence such as periods of severe monetary and credit contraction" (Bank of Korea Act, no. 14242).

Figure 1: First Purchase of the Bank Recapitalization Fund



Source: FSC 2009a, translated from the original Korean.

Participation in the Fund was open to all Korean commercial banks and financial institutions, both regional and national. Preferred shares, hybrid securities, and subordinated debt were eligible for issuance to the Fund by participating banks. In order to reduce stigma, individual caps on usage were imposed based on a bank's asset holdings rather than credit ratings (Lee and Rhee 2012). Banks were assigned, according to the size of their assets, to Group I, II, III, or IV. Within the limits imposed for each group (as shown in Figure 5 below), the capital injection amount for each bank was limited to a 1.5% increase in its capital adequacy ratio (CAR) and varied according to its lending to small and medium-size businesses. The Fund determined the CAR limits based on a desire to avoid any imbalance in or concentration of capital support for selected banks (FSC 2009a).

To apply for access to the Fund, a bank was required to sign with the Bank Recapitalization Fund Oversight Committee an implementation Memorandum of Understanding (MoU) specifying particular commitments to providing liquidity support to the real economy, SMEs, and corporate restructuring programs. The FSC then continually monitored each institution's progress with respect to the MoU obligations and adjust any government support accordingly. For instance, a bank that did not demonstrate clear progress toward supporting the real economy could face limited access to the Fund and higher applicable interest rates in subsequent rounds of bond purchases.

Although participating banks were required to support the real economy and commit to corporate restructuring, the FSC was not to intervene in bank management. This stipulation was intended to encourage banks to continue to lend and to take on restructuring themselves. Specific usage of capital injected was tailored to each bank, and the banks submitted a monthly report on compliance with specific conditions attached to the capital injection (FSC 2009a).

The Fund was managed by a committee consisting of nine members chosen from the FSC, participating banks, and institutional investors. The chair of the committee was an academic.

The diverse composition of the committee was intended to reflect different interests in a balanced way and to ensure transparency in the management of the Fund (FSC 2009a). The committee decided on applicable interest rates and other conditions of the program. It was also responsible for reviewing mandatory reports submitted by the banks regarding their usage of the injected capital.

Outcomes

The Fund provided capital in the form of preferred shares, hybrid securities, and subordinated debt. The FSC decided what capital to inject after a review of each bank. While preferred shares and hybrid securities were considered Tier 1, subordinated debt was categorized as Tier 2. Hybrid securities were to have a maturity of 30 years or longer, with a call option after five years from issuance; it was also subordinated to the Tier 2 capital. Subordinated debt had a maturity of five years or longer (FSC 2009a).

Prior to the first round of bond purchases, the FSC undertook a review of all Korean commercial banks to assess their compliance with the MoU terms. Six banks received “excellent” ratings, while the remaining eight were rated as “satisfactory” (see Figure 2). An interest rate of 6.59% was imposed on nationwide banks with an “excellent” rating issuing hybrid securities, while those deemed to be “satisfactory” incurred an additional 30 basis points (6.89%). Similarly, nationwide banks with ratings of “excellent” issuing subordinated debt were charged an interest rate of 6.49%, while “satisfactory” banks were charged at a rate of 6.59%. To account for the discrepancy between regional and nationwide banks’ credit ratings, regional banks were charged an additional 30 basis points on top of their larger counterparts’ rates (FSC 2009b).

Figure 2: Interest Rates Charged According to Bank Size and Rating

	Nationwide banks (excellent)	**Regional banks (excellent)**	**Nationwide banks (satisfactory)**	**Regional banks (satisfactory)**
Hybrid securities	6.59%	6.89%	6.89%	7.19%
Subordinated debt	6.49%	6.79%	6.59%	6.89%

Source: FSC 2011.

On March 31, 2009, the Fund purchased from eight Korean banks and financial institutions KRW 3.5 trillion in hybrid securities with maturities of 30 years and KRW 500 billion in subordinated debt with maturities of five years and nine months. This was the sole round of purchases conducted by the Fund. The table in Figure 3 details the issuances by bank:

Figure 3: Bank Recapitalization Fund Purchases as of March 31, 2009

Type/Banks	Woori Financial Holdings	Woori Bank	Kookmin Bank	Hana Bank	NH Bank	Suhyup Bank	Kyongnam Bank	Kwangju Bank	Total
Hybrid securities	—	1,000	1,000	400	750	100	116	87	3,453
Subordinated debt	300	—	—	—	—	—	116	87	503
Total	**300**	**1,000**	**1,000**	**400**	**750**	**100**	**232**	**174**	**3,956**

Note: Amounts denominated in KRW, billions.

Source: FSC 2011.

By the end of November 2011, a total of KRW 1.3 trillion had been repaid through the combined sale of KRW 503.0 billion[6] in subordinated securities on the open market and KRW 800 billion[7] in hybrid security buybacks by issuing banks (FSC 2011).

On December 9, 2011, the Bank Recapitalization Fund Oversight Committee approved the implementation of an additional early repayment scheme whereby issuers were able to buy back their hybrid securities before maturity (see Figure 4 below). This arrangement allowed four banks,[8] whose earnings had increased over the course of 2011, to purchase a total of KRW 1.5 trillion in hybrid securities (FSC 2011). The outstanding amount to be recovered was thus lowered to KRW 1.2 trillion, or 29% of the Fund's total utilization.

According to an internal Bank of Korea report, the remaining KRW 1.2 trillion in hybrid securities was repaid in full by August 2016, at which point the government closed the Bank Recapitalization Fund.

[6] Kyongnam and Kwangju banks (KRW 203 billion, March 2010), and Woori Financial Holdings (KRW 300 billion, December 2010).

[7] Hana (KRW 100 billion, March 2011), Kookmin (KRW 400 billion, April 2011), and Woori Bank (KRW 300 billion, May 2011).

[8] Kookmin (KRW 600 billion), Hana (KRW 300 billion), Woori Bank (KRW 200 billion), and NH Bank (KRW 400 billion).

Figure 4: Fund Purchases and Repayment of Hybrid Securities

Institution	Allocated amount	Repaid amount (March 2011–May 2011)	Amount to be repaid (December 2011)	Remaining amount
Woori Bank	1,000	300	200	500
Kookmin	1,000	400	600	—
Hana	400	100	300	—
NH	750	—	400	350
Suhyup	100	—	—	100
Kyongnam	116	—	—	116
Kwangju	87	—	—	87
Total	**3,453**	**800**	**1,500**	**1,153**

Note: Amounts denominated in KRW, billions.

Source: FSC 2011.

Key Design Decisions

1. Part of a Package: The Fund was announced by the Korean government as one of a series of short-term stabilization measures announced on December 18, 2008, in response to the Global Financial Crisis.

On December 18, 2008, the Financial Services Commission announced a package of short-term stabilization measures to be implemented throughout 2009. Among other interventions intended to boost liquidity within the Korean economy, the FSC plans provided support for the domestic financial markets through the establishment of the Bond Market Stabilization Fund and the Stock Market Stabilization Fund, bolstered the soundness of capital reserves through the Bank Capital Expansion Fund, and increased consumer confidence with a series of amendments to existing debt repayment laws. Furthermore, the FSC laid out plans to oversee the restructuring of distressed companies and tighten supervision of the financial derivatives market.

2. Legal Authority: The Korean government created the Fund under the authority granted by Article 65, Section 3 ("Emergency Credit to Financial Institutions"), of Chapter IV of the Bank of Korea Act.

Article 65, Section 3 ("Emergency Credit to Financial Institutions"), of Chapter IV of the Bank of Korea Act stipulates the following:

> The Bank of Korea may, in any of the following subparagraphs, extend credits to any financial institution secured on assets whose properness has been temporarily granted with the consent of not less than four members:

(1) Where it extends credits temporarily to any financial institution in a vital emergency in which the stabilization of currency and banking business are directly threatened.

3. Governance/Administration: The Fund was managed by a committee consisting of nine members chosen from the FSC, participating banks, and institutional investors. The chair of the committee was an academic.

The diverse composition of the committee was intended to reflect different interests in a balanced way and to ensure transparency in the management of the Fund (FSC 2009a). The committee decided on applicable interest rates and other conditions of the program. It was also responsible for reviewing mandatory reports submitted by the banks regarding their usage of the injected capital.

4. Size: Drawing upon public and private sources of funding, the Korean government committed a total of KRW 20.0 trillion for Fund purchases.

The Bank of Korea utilized the Korea Development Bank as a conduit to channel KRW 10.0 trillion in loans to the Fund. This was due to the fact that Article 80 of the Bank of Korea Act limited loans to profit-making enterprises (i.e., nonfinancial institutions like the Fund) only when "there [was] a severe deflation of monetary credit." Because that was not the case, the BOK lent to the KDB (a financial institution) under Article 65 of the Bank of Korea Act.

The KDB lent an additional KRW 2.0 trillion, bringing the total to KRW 12.0 trillion.

The government intended to raise the final KRW 8.0 trillion by purchasing banks' subordinated and hybrid securities through the Fund and selling them to institutional investors in the form of securitized bonds.

Of the KRW 20.0 trillion allocated, the Fund used KRW 10.0 trillion for the purchase of preferred shares (KRW 2.0 trillion) and hybrid securities (KRW 8.0 trillion); it utilized the other KRW 10.0 trillion to acquire subordinated debt (FSC 2009a).

5. Source of Injections: The Fund provided capital in the form of preferred shares, hybrid securities, and subordinated debt.

The FSC decided what capital to inject after a review of each bank. While preferred shares and hybrid securities were considered Tier 1, subordinated debt was categorized as Tier 2. Hybrid securities were to have a maturity of 30 years or longer, with a call option after five years from issuance; it was also subordinated to the Tier 2 capital. Subordinated debt was to have a maturity of five years or longer (FSC 2009a).

On March 31, 2009, the Fund purchased from eight Korean banks and financial institutions KRW 3.5 trillion in hybrid securities with maturities of 30 years and KRW 500 billion in subordinated debt with maturities of five years and nine months. This was the sole round of purchases conducted by the Fund. The table in Figure 3 details the issuances by bank.

6. Eligible Institutions: All Korean commercial banks, both regional and national, were eligible for Fund use.

In designing the program, the Korean government aimed to increase BIS ratios among Korean banks by 1.5%. However, it was not a requirement for participation that banks' capital adequacy ratios fall below a certain threshold; on the contrary, the Fund allowed the government to inject capital into banks with ratios above the BIS requirement of 9%, which had previously not been legally feasible. It was thus hoped that providing stronger capital bases for commercial banks would encourage increased lending to the real economy.

Banks could voluntarily access the Fund when in need of capital.

7. Individual Participation Limits: Caps on individual banks' participation were imposed according to each bank's asset holdings.

Banks were assigned, according to the size of their assets, to Group I, II, III, or IV. Within the limits imposed for each group (as shown in Figure 5 below), the capital injection amount for each bank was limited to a 1.5% increase in its capital adequacy ratio and varied according to its lending to small and medium-size businesses. The Fund determined the CAR limits based on a desire to avoid any imbalance in or concentration of capital support for selected banks (FSC 2009a).

Figure 5: Groups for Individual Capital Injection Amount

Group	Group I (assets of more than KRW 200 trillion)	Group II (assets of KRW 140 trillion–200 trillion)	Group III (assets of KRW 50 trillion–140 trillion)	Group IV (assets of less than KRW 50 trillion)
Limits on capital injection	Max KRW 2 trillion	Max KRW 1.5 trillion	Max KRW 1 trillion	Max KRW 300 billion
Banks in the group	Kookmin, Woori, Shinhan	Hana, NongHyup (NH), Industrial Bank of Korea	Korea Exchange Bank, Citi, SC Cheil	Suhyup and other regional banks

Source: FSC 2009a

8. Pricing Terms: A bank's access to the Fund was contingent upon how well the bank provided liquidity support to the real economy, SMEs, and corporate restructuring programs.

Initial interest rates for participation were dictated by the scoring grid described in Figure 2 above. Upon applying for access to the program, each bank was required to sign with the Korean government an MoU stating its continued commitment to assisting the real economy. The FSC then conducted monthly progress assessments and adjusted accordingly the terms of Fund utilization, interest rates, and other usage restrictions. These reviews took place throughout November and December 2008 (FSC 2009a).

FSC's review of the commercial banks' compliance with the MoU terms resulted in six banks receiving "excellent" ratings, while the remaining eight received "satisfactory" ratings. An interest rate of 6.59% was imposed on nationwide banks with an "excellent" rating issuing hybrid securities, while those deemed to be "satisfactory" incurred an additional 30 basis points (6.89%). Similarly, nationwide banks with ratings of "excellent" issuing subordinated debt were charged an interest rate of 6.49%, while "satisfactory" banks were charged at a rate of 6.59%. To account for the discrepancy between regional and nationwide banks' credit ratings, regional banks were charged an additional 30 basis points on top of their larger counterparts' rates (FSC 2009b).

9. Debt Restructuring: Although participating banks were required to support the real economy and commit to corporate restructuring, the FSC was not to intervene in bank management.

This stipulation was intended to encourage banks to continue to lend and to take on restructuring themselves. Specific usage of capital injected was tailored to each bank, and the banks submitted a monthly report on compliance with specific conditions agreed upon in their individual MoUs (FSC 2009a).

10. Exit Strategy: Initially, no end date was set for the Fund's operation.

According to the Fund's internal operating rules, its activities were to be terminated upon full repayment.

On December 9, 2011, the Bank Recapitalization Fund Oversight Committee approved the implementation of an additional early repayment scheme whereby issuers were able to buy back their hybrid securities before maturity. This arrangement allowed four banks,[9] whose earnings had increased over the course of 2011, to purchase a total of KRW 1.5 trillion in hybrid securities (FSC 2011). The outstanding amount to be recovered was thus lowered to KRW 1.2 trillion, or 29% of the Fund's total utilization.

The remaining KRW 1.2 trillion in hybrid securities was repaid in full by August 2016, at which point the Bank Recapitalization Fund ceased operations.

Evaluation

The Korean government viewed the implementation of the early repayment scheme as an indication that "banks [had] successfully recovered from the 2008 global financial crisis" (FSC 2011). Lee and Rhee (2012) have also characterized the Fund as a general success, providing "a safeguard to banks against possible substantial losses" without imposing any "fiscal burden."

[9] Kookmin (KRW 600 billion), Hana (KRW 300 billion), Woori Bank (KRW 200 billion), and NH Bank (KRW 400 billion).

However, a report published in July 2009 by the National Assembly Budget Office (NABO) noted that the government may not have done enough to establish the program in a timely manner; most banks had already raised their Tier 1 capital ratios in 2008, and those that had not were likely to face scrutiny for contributing to the Fund. Furthermore, concerns about government interference in bank management may have caused larger institutions, such as Citigroup and SC Cheil Bank, to decline participation (NABO 2009). A press release published by the FSC in February 2009, by contrast, had assured potential participants that the government would not intervene in the banks' normal operations (FSC 2009a). Additionally, a press release published by the FSC in July 2009 asserted that although banks may not have used the Fund to its maximum potential, the Fund acted as an excellent backup that shored up confidence in the banking system, allowing banks to increase capital from the market, and minimized cost to public funds (FSC 2009d).

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Key Program Documents

Legal/Regulatory Guidance

(Law No. 138 Promulgated on May 5, 1950) Bank of Korea Act
Official guidelines describing the terms and conditions under which the Bank of Korea could operate upon establishment, with amendments through 2012.
https://ypfs.som.yale.edu/library/bank-korea-act.

Press Releases/Announcements

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https://ypfs.som.yale.edu/library/global-financial-crisis-and-korean-economy.

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Korea Institute of Finance white paper analyzing the impact of – and Korean government's responses to – the Global Financial Crisis.
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https://ypfs.som.yale.edu/library/korean-financial-system-overcoming-global-financial-crisis-and-addressing-remaining.

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