Financial Services Commission

Press Release

September 27, 2021

FSC CHAIRMAN HOLDS TALKS WITH MARKET EXPERTS AND DISCUSSES RISK FACTORS IN MARKETS

FSC Chairman Koh Seungbeom held a meeting with economic and financial market experts on September 27 and discussed diverse risk factors in both domestic and overseas financial markets.

The following is a summary of Chairman Koh's remarks.

In order to deal with the issue of excessive household debt or risks emanating from global financial imbalances, it is necessary to (a) clearly understand the structure of the problem, (b) preemptively remove the trigger factor safely and completely and (c) raise alertness to prepare for risks.

The first step requires an understanding of risk factors in the current economic and financial markets as well as their causal linkages to other factors and areas. The excessive liquidity and low interest rate conditions amid the pandemic have led to increased risks of excessive indebtedness and asset price hikes. To deal with these conditions, the Fed has announced a tapering move beginning in this year and China's government has rolled out strict regulations to control the real estate market. As such, market volatility has been expanding in global financial and asset markets.

There are also possibilities of a prolonging inflation as the pace of global economic recovery has been slowing and the gap between the developed and developing countries widens due to uneven supply of vaccines and rises in raw material prices.

Against this backdrop, it is necessary to prepare for abrupt changes in external environment while working to preemptively remove risk factors, such as excessive indebtedness and housing market overheating. In this process, provision of support for vulnerable groups should also be maintained.

With regard to the second step of "preemptively removing the trigger factor safely and completely," the government decided to extend the availability of pandemic-related loan support for small merchants and SMEs for six more months until March next year and to expand microfinance support for vulnerable groups.[1] The authorities are also continuing to work on additional support measures through state-backed financial institutions to help vulnerable groups get through the pandemic. While providing a strong backstop to vulnerable groups, the authorities will seek strong measures to deal with the issue of household debt. While extending the total debt management period beyond the end of next year, the authorities will continually and

[1] Please click here to see the press release dated September 16, 2021.

gradually pursue strong measures until their effects are shown through results. To this end, the authorities will pursue policies in a consistent and preemptive manner.

The third step of “raising alertness to prepare for risks” is important as market participants should face the fact that the low interest rate and overheated asset market situation to which they have become accustomed may no longer be here. Investors should understand that taking out unaffordable and excessive loans to invest in highly volatile assets can lead to unpredictable and difficult situations. The most important gauge in loan decisions in this regard should be whether a borrower can afford to make repayments in a stable way. As such, improving the effectiveness of borrowers’ repayment capabilities will be the focus of the government’s plan for household debt management measures which is expected to be announced in October this year.

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