



Knowledge Partnership Week
Third Asia Think Tank Summit:
Inclusive Knowledge Partnerships for Development
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Economic Challenges in Korea and KIF's Research

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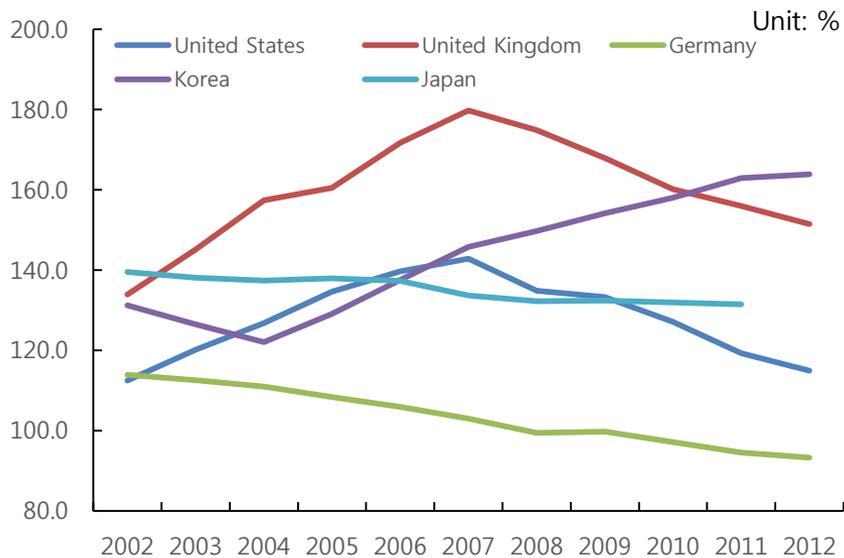
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1. System Risk: Household Debt in Korea

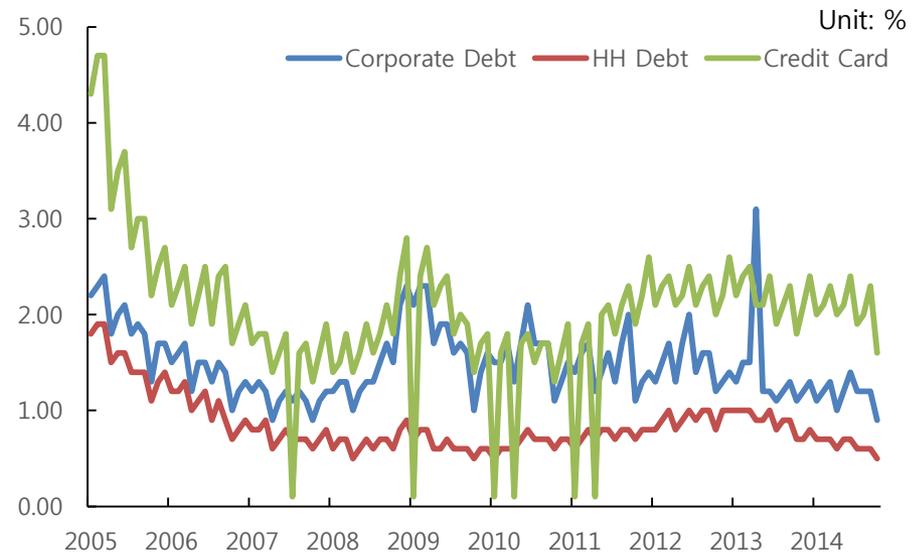
Rapidly expanding HH debt imposes a potential threat to the Korean economy

Fig 1. HH Debt to Disposable Income



Source: OECD Factbook 2014

Fig 2. Delinquency Rate by Debt Type



Source: BOK

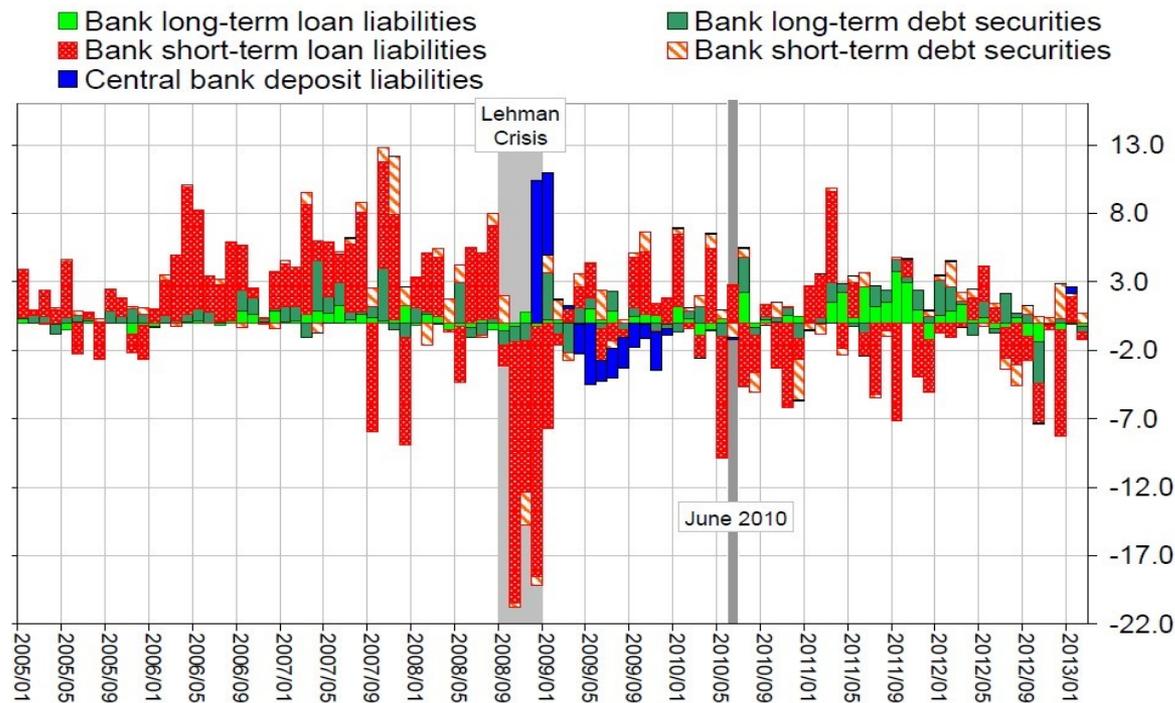
1. System Risk: Household Debt in Korea

- **KIF contributed to managing HH debt problem by issuing several reports on the following topics**
 - Why the delinquency rate is low despite the large size of HH debt?
 - What would be the delinquency rate sensitivity with respect to the real estate price shock or interest rate shock?
 - What is an appropriate level of LTV and DTI guideline to facilitate the demands from HH and to manage the delinquency rate under control
 - Would there be any index to be developed to detect the sharp increase of future delinquency rate? (EWI)

2. Financial Market Stability: Volatile Capital Flows

Emerging economies including Korea and Asian countries face volatile capital, especially during financial crisis.

Fig 3. Capital Flows to the Korean Banking Sector



From Bruno and Shin (2013), Source: Bank of Korea

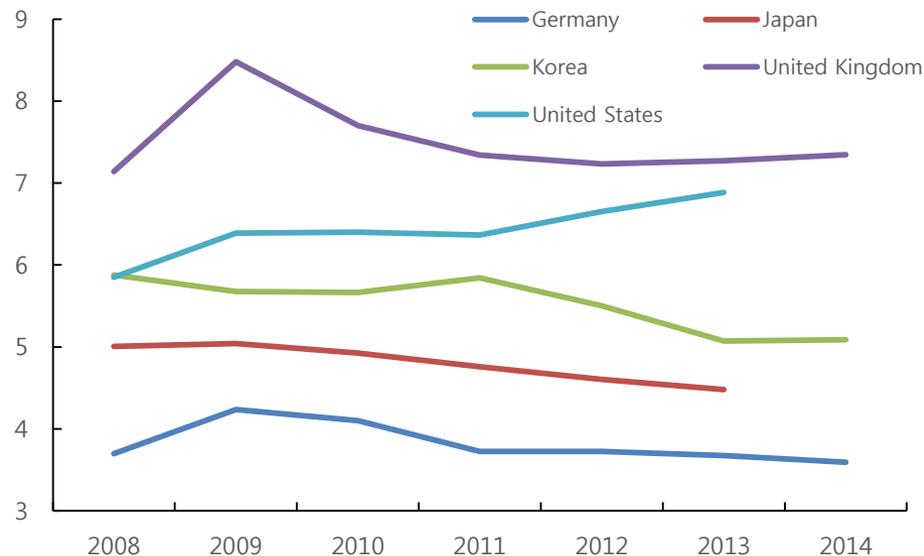
2. Financial Market Stability: Volatile Capital Flows

- KIF Provide research outputs on macro-prudential policies including the following sample questions.
 - What are appropriate guidelines to reduce the vol of capital flows while not disrupting economic activities of market participants?
 - Leverage cap on the value of foreign exchange derivatives contracts
 - Levy on the foreign exchange-denominated non-core liabilities of the banking sector
 - Tax on interest of foreign bond investors
 - What are the cost and benefit of various macro-prudential regulation policy alternatives?
 - What are the ways to cooperate and coordinate FX policies among countries to reduce the vol of capital flows?

3. Development of New Business Models: Fintech

The relative size of financial sector in Korea is not small, but stagnating..

Fig 4. Share in GDP of Financial Sector



Source: OECD

3. Development of New Business Models: Fintech

- **KIF researches on new business model development such as internet banks and Fintech to help financial firms to overcome the stagnating profitability.**
 - What would be the legal and economic framework for introducing internet bank license in Korea?
 - What would be an appropriate legal frame for separation of financial and industrial capital?
 - What would be the real benefits and potential risks of introducing newly developed information internet and mobile technologies?
 - What regulatory and supervisory changes are necessary to accommodate technology based financial firms?

4. [Ref] KIF's Role in Regional Cooperation

- **ASEAN+3 Research Group**

- Capital Market Development

- Developing the Capital Market to Widen and Diversify SME Financing: The Korean Experience(2008)
- SWOT analysis on the Capital Market Infrastructures in the ASEAN+3 Member countries and Its Implications(2014)

- Risk Management

- Regulation and Supervision for Sound Liquidity Risk Management for Banks(2010)
- Lessons from Asia's Experiences with Sudden Capital Flows(2011)
- The Role of Regional Financial Safety Nets in Global Architecture(2012)
- Enhancing Regional Credit Rating Capacity: Implications for ASEAN+3(2012)

4. [Ref] KIF's Role in Regional Cooperation

- **Knowledge Sharing Program(KSP) – Finance Section**
 - Developing Financial Infrastructure
 - A Study on the Foundation for introducing Limited Deposit Protection Scheme in Mongolia(2010)
 - Consulting Policy Measures
 - Macro Prudential Surveillance to Safeguard the Financial Stability(2013)
 - Financial Policies for Myanmar SMEs : Korea's Experience and Policy Recommendations(2013)

KIF Research Initiatives

- **Financial Policies and Financial Industry in New Economic Paradigm**
 - Studies methods for financial institutions to support real economic activities and increase profitability by promoting more efficient resource allocation in structurally changing economic situations.
- **Financial Regulation and Supervision for Competitive Financial Industry**
 - Researches financial regulation and supervision for financial institutions to step up self-regulation and fulfill their social responsibility, to ensure sound development of financial sector in a competitive environment.
- **System Risk Management: Market Failure I**
 - Analyzes structural/frictional/cyclical factors which might cause system risk and suggests policies to counteract risky factors
- **Policy Financing: Market Failure II**
 - Researches optimal scope and scale of policy financing to complement market. Areas include low-incomers/low-creditors financing, SME financing, export-import financing, technology financing.

Thank you!



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