

VICE CHAIRMAN HOLDS 1ST TASKFORCE MEETING ON HOUSEHOLD DEBT MANAGEMENT

The FSC held the 1st taskforce meeting on household debt management chaired by Vice Chairman Doh Kyu-sang on July 15 and discussed household debt management measures for the second half of this year.

The following is a summary of Vice Chairman Doh's remarks.

(KEY POLICY DIRECTION) For the past year and a half, the Korean economy has faced an unprecedented level of crisis triggered by the COVID-19 pandemic. In response, the financial authorities introduced support measures worth KRW175 trillion-plus. As a result, the recovery has been faster than expected. However, in the process, the level of debt in the private sector has soared with a rapid rise in household debt posing risks to the economy. In the meantime, continuing with the provision of sufficient financing support remains an important task, especially with the recent spread of COVID19 variants. The financial authorities are aiming for an appropriate balance between these two objectives while aiming to control household debt growth within 5 to 6 percent this year and about 4 percent in next year.

(HOUSEHOLD DEBT IN H1 2021) Household debt in the first half of this year rose KRW63.3 trillion, or about KRW10.6 trillion a month. Compared to the same period from the previous year (*up KRW6.1 trillion*), the pace of growth has accelerated, but it has slowed down compared to the second half of last year (*up KRW12.6 trillion*). The household debt growth remained at about the same level in the banking sector but expanded in the non-banking sector. Given a higher rate of housing market transactions, there are growing risks in the non-banking sector.

(HOUSEHOLD DEBT MANAGEMENT PLAN FOR H2 2021) In order to meet the goal of containing the growth of household debt within the 5 to 6 percent level, the financial authorities will work to ensure effective implementation of the household debt management measures, such as a gradual expansion of the application of DSR on individual borrowers. In the fourth quarter, the authorities will introduce a new rule on countercyclical capital buffers for the household sector. The authorities will also closely monitor the household debt growth in the non-banking sector and decide whether to apply the individual-level DSR rule in the non-banking sector earlier than previously planned. The growth in household debt is considered as the biggest risk to the economy. As such, a stable management requires close cooperation from both financial institutions and individuals.

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