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APCF

For Inclusive Financial Stability in the Digital Age

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Korea in the past took financial support for granted to achieve its goal of growth priority. This led to an inevitable financial constraint, making weak the link between economic activity and domestic investment and employment. This has intensified economic bipolarization as well as increased the cost for financial stability. In the meantime, the credit rating of Korean government bond is high at AA but is currently not recognized as indispensable collateral for cross-border transactions. Although the international credit rating standard has approved its eligibility, it is yet to find general acceptance. With this fount of ultimate trust not being effectively used in the market, there are unavoidable limits of risk distribution and resource allocation.

Because the Korean financial sector has long remained passive, being so dependent on safe asset, it has been ineffectual to concretize its own trust foundation. Korean finance is now demanding for stability management rather than forays into new markets. Saving methods and investment opportunities are much limited, and market friction is ever high due to government intervention to regulate speculation. Consequently, the risk profile is polarized and large-scale atmospheric funds are dominated by asset bubble deviations. The disparities in region, income, and property make it even harder for us to observe inclusive financial stability. To make matters worse, the humongous Chinese financial sector came to reveal its vulnerability, dragging the global economy to still linger on the key currencies.

In this digital age, it is likely that the lack of trust foundation brings about market chaos as decentralization takes deeper and stronger root. What we need is to build a new value creation base along with the existing trust foundation based on government bond so that they fit the digital environment. Once the diverse trust foundations operate organically, they would be the milestones to power up growth and employment. As for the properties regarded as key assets from the past, they may be of relatively less value in the new digital era where everything is based on blockchain. While the scope of asset is continuously expanding, legacy financial institutions will be casted into a much smaller role when lagging behind the trend.

To escort inclusive financial stability to this land, we should consolidate market trust based on government bond. To do so, we need to better use our key asset as indispensable collateral for cross-border transactions. Financial stability will naturally unfold when the Korean government bond become more widely accepted by the global market. Fortunately, collateral based transaction is the most realistic option to form mutual trust in repo and derivatives market when basic conditions are not so good. Government bond as cross-border transactions collateral will not only create mutual trust but allow more effective risk management when combined with the establishment of market infrastructures. Then, it will as well facilitate future-oriented investments and attract private equities, hedge funds, and pension funds for a more stable participation. We should also leave the door open for blockchain based token so that it might grab a chance as a cross-border collateral in a larger market. Thus, there needs to be an ongoing dialogue about standards for eligible collateral, investment in futuristic infrastructures such as digital asset transaction platform, and synchronization of related regulations. The government should constantly engage in fostering an open, fair, predictable ecosystem, for the future market is propelled by the autonomous participation and connection of all members rather than a control of a single participant.