

The expanding role of non-bank financial institutions in transmitting global financial conditions – the case of Korea

Bank of Korea¹

1. Introduction

Over the past decade, Korea's external balance sheet has undergone a profound structural transformation. Korea became a net external creditor in 2014 and has steadily accumulated foreign assets since then. Non-bank financial institutions (NBFIs) have played a central role in this trend, as their cross-border investment has contributed substantially to the rapid increase in Korea's foreign asset holdings. With this structural shift, the traditional transmission channel of external shocks observed during the net debtor period has notably attenuated.^{2, 3}

Despite this transition, domestic financial conditions in Korea remain highly sensitive to global financial conditions. When global risk sentiment deteriorates, domestic financial conditions also become tighter. The global risk-off episodes – marked by an elevated VIX index – are followed by notable tightening in domestic financial conditions, as reflected in indicators of covered interest parity deviations (CIPDs)⁴ and in domestic credit spreads. While CIPDs capture market stress in synthetic dollar funding conditions, credit spreads reflect a tightening in the local currency funding conditions in domestic financial markets.

Graph 1 shows the linkage between global and domestic financial conditions. As Graph 1.A shows, during the risk-off episodes (marked as the shaded areas), the

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² External shocks have traditionally tightened domestic financial conditions through the balance sheets of debtor countries. When global financial conditions tighten, currency depreciation increases the local currency burden of foreign currency debt, raising credit risks and tightening domestic financial conditions, as observed in Korea during the Asian financial crisis (Krugman (1999); Céspedes et al (2004); Arellano (2008)). More recently, even countries that borrow mainly in local currency have experienced similar stress because currency depreciation reduces foreign investors' local currency returns and induces sell-offs of local currency bonds (Carstens and Shin (2019); Hofmann et al (2020)). In addition, a large literature emphasises that global shocks are also transmitted through global bank balance sheets by changing a bank's risk-taking capacity and cross-border lending (Bruno and Shin (2014, 2015); Adrian and Shin (2010, 2014)).

³ As of end-2024, a large share of Korea's external liabilities was denominated in Korean won (61.6%), followed by US dollars (29.2%) and other foreign currencies (9.2%). In contrast, most external assets are denominated in foreign currencies, with 61.9% in US dollars and 36.9% in other currencies.

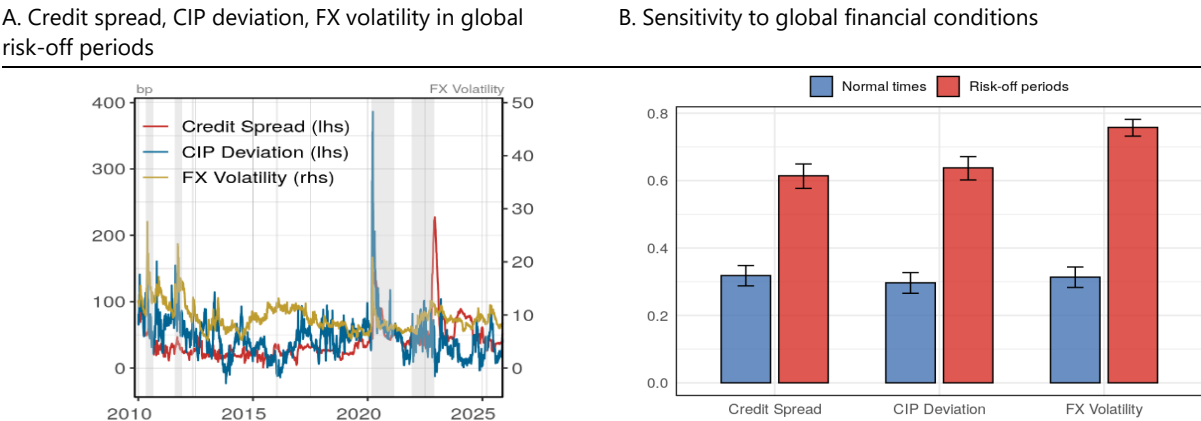
⁴ CIPDs represent dollar funding costs, measured as the difference between the interest rate implied by foreign exchange (FX) derivatives (ie synthetic dollar funding) and the interest rate paid directly in the US dollar cash market. Specifically, CIPDs correspond to the gap between the Korea-US interest rate differential and the forward premium.

foreign exchange (FX) market becomes more volatile and, more importantly, domestic funding costs rise in both synthetic dollar markets and local currency credit markets. Graph 1.B reinforces this observation by examining the sensitivities of domestic financial conditions to global risk sentiment. Credit spreads, CIPDs and FX volatility all exhibit positive correlations with the VIX. Moreover, these sensitivities intensify markedly during risk-off episodes, underscoring the heightened transmission of external shocks in periods of deteriorated global sentiment.⁵

Based on these observations, the sections that follow examine how external shocks are transmitted to Korea’s domestic financial markets, with particular emphasis on the role of domestic NBFIs. We analyse in greater detail their expanding role in cross-border investment and explore the mechanisms through which external shocks propagate into domestic financial conditions, with NBFIs positioned at the centre of this transmission channel. Finally, we present a case study of the 2022 market turmoil episode – a moment when these mechanisms are clearly activated – and review the Bank of Korea’s policy response.

Linkage between global and domestic financial conditions

Graph 1



Graph 1.A shows the daily series of credit spread (three-month commercial paper – three-month monetary stabilisation bonds), CIP deviation (three-month) and FX volatility (three-month). The credit spread and CIP deviation data are scaled by basis points (left-hand scale), while FX volatility (three-month USD-KRW implied volatility) is shown on the right-hand scale. Shaded regions represent major global risk-off episodes (defined as monthly log of VIX falls within the top 25% of its distribution). Graph 1.B shows each variable’s correlation with the VIX, with the blue bars showing unconditional correlations and the red bars showing correlations during risk-off periods. The error bands denote the 95% confidence intervals. The sample covers 4 January 2010 to 20 November 2025.

Sources: Bank of Korea; Bloomberg; authors’ calculations.

2. The rising role of domestic NBFIs

The role of domestic NBFIs in Korea’s external financial landscape has expanded markedly over the past decade. Once secondary players in cross-border investment,

⁵ This is one of the typical patterns observed in economies with relatively shallow financial markets. Using a panel of 17 countries, Kim and Kim (2025b) show that exchange rates and credit spreads react more strongly to global risk when financial market depth is low.

NBFIs have now become central drivers of Korea’s rising net foreign asset (NFA) position and, by extension, key participants in the FX derivatives market.

Korea’s shift towards a net external creditor position occurred in Q3 2014. This transition was driven primarily by the steady accumulation of foreign assets by domestic residents, while foreign liabilities remained relatively stagnant. Graph 2.A shows this pattern, showing a sustained rise in foreign assets that has outpaced the growth in foreign liabilities. As of Q2 2025, Korea’s NFAs stood at USD 1.03 trillion, equivalent to about 55% of GDP.

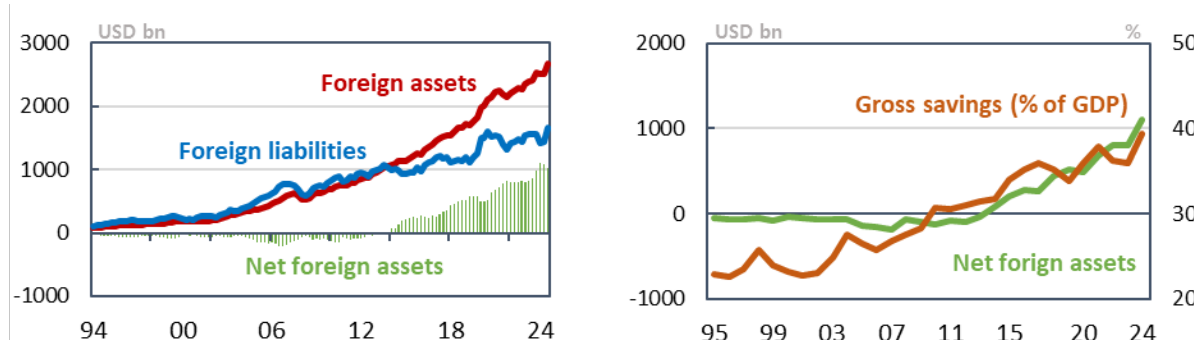
The rapid increase in the NFA position is closely linked to an upward trend in domestic savings. Graph 2.B shows that gross savings – measured as gross income net of consumption in the economy – have risen at a pace broadly similar to that of NFAs. This suggests that Korea’s persistent current account surpluses have been directed more towards overseas investment, thereby contributing to the expansion of its external wealth.^{6, 7}

Korea’s sustained growth of net foreign assets

Graph 2

A. Korea’s foreign assets and liabilities

B. Gross savings and NFAs



Graph 2.A shows foreign assets, foreign liabilities and net foreign assets on an end-of-quarter basis from Q4 1994 to Q2 2025. Graph 2.B shows gross savings (as a percentage of GDP) on an annual basis, while NFAs are shown on an end-of-year basis from 1995 to 2024.

Sources: Bank of Korea; Bloomberg.

Composition shift – from public to private sector

This steady accumulation of net foreign assets has been accompanied by a notable shift in their composition – from reserve accumulation to direct and portfolio investments as shown in Graph 3.A. In the aftermath of the 1997 Asian financial crisis and throughout the early 2000s, increases in foreign assets were dominated by

⁶ In earlier years, much of the rise in national savings was offset by domestic investment, limiting its impact on the NFA position. After 2015, however, the combination of overseas investment promotion policies and declining domestic capital returns – reflecting demographic ageing and slowing productivity growth – has resulted in an increasing portion of excess savings being invested overseas (Higgins (1998); Lane and Milesi-Ferretti (2001); Bárány et al (2023)).

⁷ This pattern is commonly seen in countries characterised by demographic ageing or by limited domestic investment opportunities.

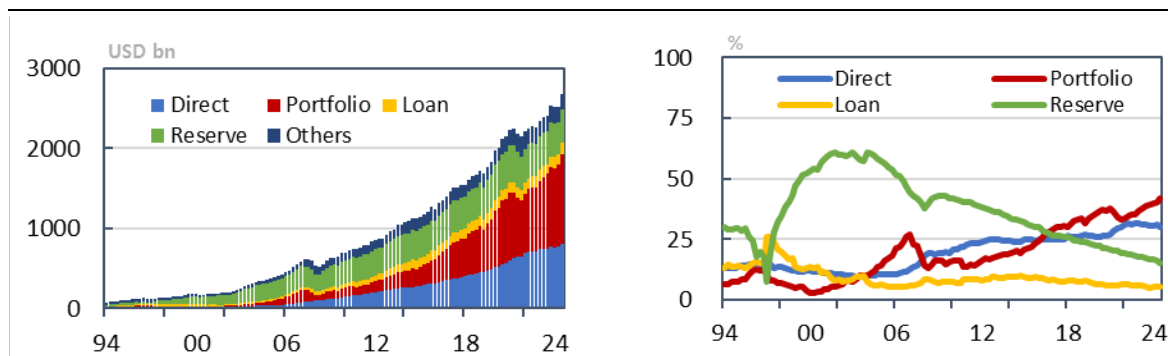
reserve accumulation. Beginning in the mid-2010s, however, the composition of foreign assets shifted markedly towards direct and portfolio investments. Graph 3.B shows this shift clearly, with the share of reserve assets declining and the shares of direct and portfolio investments rising steadily over time. As of the end of Q2 2025, portfolio and direct investments account for approximately 42% and 30% of total foreign assets, respectively, whereas reserve assets represent only about 15%.

The shift in the composition of foreign asset accumulation

Graph 3

A. By investment type (by amount)

B. By investment type (by share)



Graph 3.A shows the outstanding stock of investment by investment type, while Graph 3.B shows the shares of each investment type. The data series are provided on a quarterly end-of-period basis from Q4 1994 to Q2 2025.

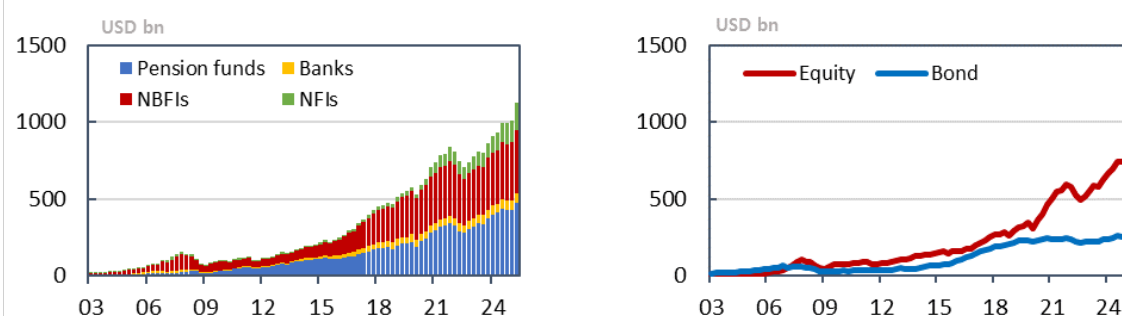
Source: Bank of Korea.

The shift driven by NBFIs is tilted towards equity

The shift towards the private sector has been driven primarily by NBFIs. Within the private sector, NBFIs – together with pension funds – account for the largest share of the increase in portfolio investment. Graph 4.A shows that the expansion in foreign portfolio assets since the mid-2010s has been driven mainly by NBFIs, while banks have played a comparatively limited role, reflecting tighter regulatory constraints. The NBFI-driven accumulation of foreign assets has been concentrated in equities rather than in debt securities. As shown in Graph 4.B, equity investment has risen sharply, particularly in recent years, whereas bond investments have grown only modestly.

A. By investor group

B. By asset classification



Graph 4.A shows the outstanding stock of portfolio investment by investor group, while Graph 4.B shows the shares of each asset class. All data series are provided on a quarterly end-of-period basis from Q4 1994 to Q2 2025.

Source: Bank of Korea.

NBFIs' participation in FX derivatives market has grown

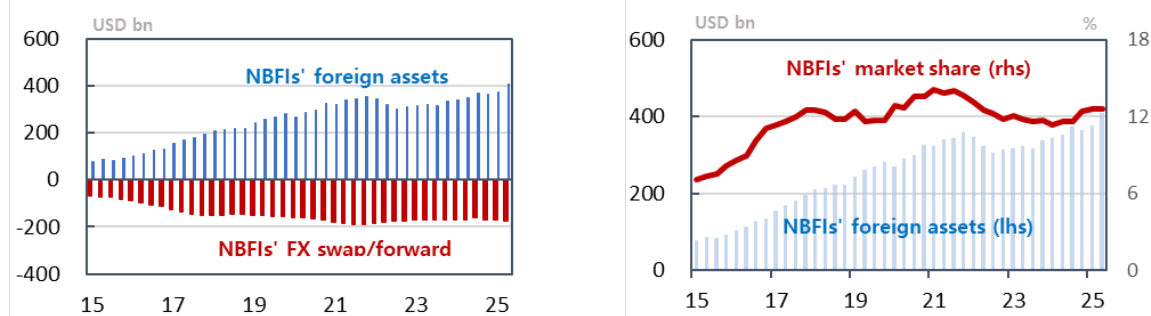
As NBFIs have become more active in cross-border investment, their participation in the FX derivatives market has risen accordingly. With limited ability to raise dollar funding directly, and given strong demand for FX hedging, NBFIs increasingly rely on off-balance sheet FX derivatives, including swaps and forwards.⁸ Graph 5.A shows that the increase in NBFIs' portfolio investment has been accompanied by a corresponding rise in their demand for FX derivatives measured by short positions with a far leg. Graph 5.B further shows that NBFIs' share in the FX derivatives market has doubled over the past decade.

As domestic banks act as intermediaries in NBFIs' FX derivative transactions, the increased use of FX derivatives by NBFIs has created a tight linkage between the two sectors. During risk-off periods, when dollar funding through FX derivatives becomes scarce, NBFIs may increase their demand for hedging, thereby heightening funding stress in the FX derivatives market. In turn, domestic banks may also be under pressure. This bank–NBFI nexus serves as a key transmission channel through which external shocks spill over into the domestic financial market, a mechanism we illustrate in more detail in the next section.

⁸ One key reason why Korean NBFIs rely so heavily on FX swaps and forwards is the regulatory environment. Korea imposes stricter requirements on FX hedging ratios for institutional investors than most other East Asian jurisdictions, which makes Korean institutions structurally more dependent on derivative hedging. As a result, Korean insurance companies typically hedge close to 100% of their foreign asset exposures, whereas their counterparts in Chinese Taipei, for example, hedge around 50%, and Japanese insurers generally hedge only 50–70% (McGuire et al (2021)).

A. Position

B. Market share



Graph 5.A shows the outstanding stock of NBFI foreign assets (blue) and NBFI demand for FX derivatives (measured by short forward positions), while Graph 5.B shows the outstanding stock of NBFI foreign assets (blue) and NBFI market share in the FX derivatives market (red). NBFI foreign assets correspond to the international investment position of other financial corporations, and forward positions represent the combined positions of insurance companies and asset management companies, as these two sectors represent the majority of foreign asset holdings within the non-bank financial sector. All data series are provided on a quarterly end-of-period basis from Q1 2015 to Q2 2025.

Source: Bank of Korea.

3. Transmission channels from global to domestic financial conditions in the rising role of NBFIs

As NBFIs account for an increasingly large share of Korea's cross-border investments, their expanding footprint has important implications for how external shocks spill over into domestic financial conditions. Some transmission channels resemble those that operated when banks were the dominant cross-border investors, while others are specific to NBFIs and have become more important today as their overseas exposures have grown.

Maturity mismatch problem, "old risk in new clothes"

NBFIs typically rely on liabilities denominated in Korean won (KRW). Thus, to invest in foreign assets, they rely on FX derivatives to obtain the necessary dollar funding. In doing so, they often face a maturity mismatch, as the maturity of their FX derivatives is considerably shorter than that of their dollar assets. This creates rollover risk because NBFIs must frequently renew short-term FX contracts to maintain long-term foreign asset positions. The underlying vulnerability resembles an old pattern – when banks were the dominant cross-border investors – now appearing in a new institutional setting. Hence, "old risk in new clothes".

The maturity structure of NBFI positions shows a pronounced imbalance. While 99.1% of NBFI bond investments have a remaining maturity of at least one year, their FX derivative contracts are heavily skewed towards maturities of less than one year, with only 32.6% extending beyond one year (Graph 6). This mismatch exposes NBFIs

to significant rollover risk that comes from the short-term nature of their FX funding relative to their longer-term dollar assets.

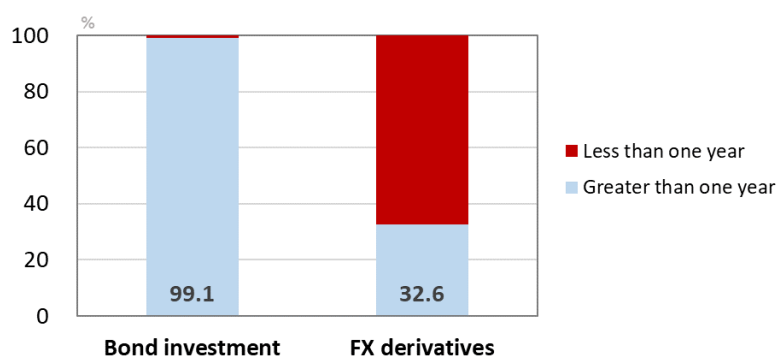
NBFI asymmetric dollar funding demand

NBFI demand for dollar funding through FX derivatives tends to rise when global financial conditions deteriorate, particularly during risk-off episodes marked by elevated VIX levels. Regression results illustrate this asymmetry. When the growth rate of NBFIs' foreign securities investment is regressed on the growth rate of their FX forward positions, the estimated coefficient is markedly higher during high-VIX periods (1.7) than during low-VIX periods (0.7), as shown in Graph 7. This indicates that NBFIs expand their dollar funding demand more relative to the scale of their portfolio investments when global risk sentiment worsens. Such behaviour appears partly driven by their tendency to strengthen hedging ex post as exchange rate volatility increases during episodes of global financial tightening.

These dynamics have important implications for the transmission of global financial conditions to domestic financial markets. Periods of heightened global risk aversion are typically accompanied by a contraction in dollar funding supplied by foreign bank branches, leading to tighter dollar liquidity conditions. In this environment, NBFIs' increased hedging-related dollar funding demand can further amplify stress in the dollar funding market.⁹

Maturity mismatch between NBFI on- and off-balance sheet positions

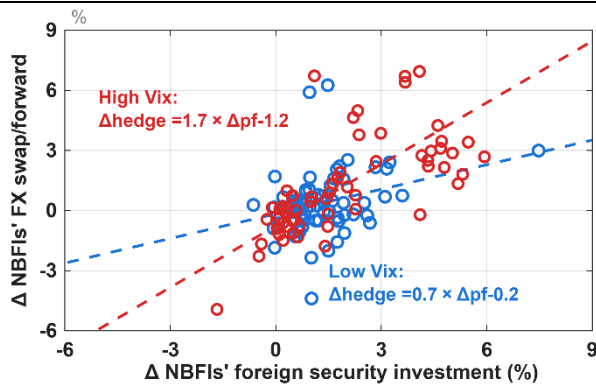
Graph 6



This graph compares the maturity structure of NBFI bond investments and FX derivatives. Each bar presents the share of each position with a remaining maturity of less than one year and of greater than one year, expressed as a proportion of the total amount within each category. The values represent five-year averages over 2020–24 using year-end data.

Sources: Bank of Korea; authors' calculations.

⁹ This amplification mechanism is consistent with IMF (2025), which highlights that rising hedging demand by non-US NBFIs during global risk-off episodes can widen CIP deviations and intensify dollar liquidity pressures. Furthermore, it is closely related to the dynamic hedging behaviour of investors, which varies with global financial conditions, as documented by Sizova et al (2025), Shin et al (2025), Kim and Kim (2025a) and Liao and Zhang (2025).



Δpf denotes the log difference of NBFIs foreign security investments, measured as cumulative portfolio investments by NBFIs (based on balance of payments data), and Δhedge denotes the log difference of net US dollar short forward positions held by NBFIs (insurance companies and asset managers). The regression coefficient indicates that a 1% increase in NBFIs portfolio investments is associated with a 1% increase in their FX forward positions. A larger coefficient implies that hedging demand rises more strongly relative to the scale of portfolio investment.

Sources: Bank of Korea; authors' calculations.

Off-balance sheet linkages between banks and NBFIs

Off-balance sheet FX derivative linkages between NBFIs and domestic banks create an additional transmission channel through which global risk shocks can amplify stress in domestic financial conditions, a channel that has grown in importance as NBFIs overseas exposure has expanded. Although domestic banks generally face limited currency mismatch risk because they manage foreign currency assets and liabilities in a broadly matched manner, their role as intermediaries, borrowing dollars from foreign bank branches and supplying them to NBFIs, creates vulnerabilities when the exchange rate depreciates sharply.

These vulnerabilities materialise through two distinct channels. One channel affects bank capital positions, and the other weakens their liquidity buffers.

When the exchange rate depreciates, the KRW value of a bank's foreign currency assets and FX derivative exposure increases mechanically. In addition, depreciation raises the counterparty credit risk on long forward positions, as counterparties' burden to deliver dollars at maturity increases. The combination of valuation-driven increases in FX exposure and heightened counterparty credit risk expands a bank's risk-weighted assets (RWA), thereby putting downward pressure on their capital ratios.

Furthermore, depreciation also weakens banks' liquidity buffers through margin call and funding channels. As the KRW depreciates, domestic bank short-dollar forward positions with foreign bank branches incur valuation losses, triggering additional variation margin payments. As margin requirements increase, banks typically meet these obligations by selling or repo-ing KRW-denominated securities that had previously been counted as high-quality liquid assets, which leads to a decline in their Liquidity Coverage Ratio.

The deterioration in both capital and liquidity positions constrains banks' ability to maintain credit supply on their balance sheets and to intermediate FX derivative transactions off their balance sheets. As banks scale back lending, funding pressure shifts directly onto borrowers, who face tighter financing conditions, while reduced hedging capacity strains NBFIs that depend on banks for their FX risk management. These pressures spill back onto banks themselves, further tightening the constraints on their balance sheets. This interaction creates a negative feedback loop that magnifies the initial impact of exchange rate depreciation on domestic financial conditions.

4. Lessons from the market turmoil in 2022 and policy responses

We illustrate how the mechanism described above operated in transmitting external shocks to domestic financial conditions by examining the episode that took place in the second half of 2022, when global financial markets tightened and risk-off sentiment intensified as major central banks, including the US Federal Reserve, raised policy rates. We also review the policy measures that the Bank of Korea (BOK) implemented to mitigate the impact of shocks arising through this channel.

During the global risk-off period in Q3 2022, the KRW depreciated sharply by 21.1% against the US dollar on a year-on-year basis. This rapid depreciation affected domestic banks through two key channels – capital ratios and liquidity ratios – which played an important role in transmitting external shocks to domestic financial conditions.

Capital ratio

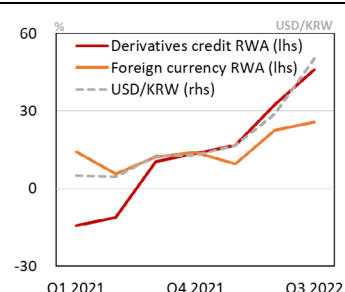
Exchange rate depreciation puts downward pressure on a bank's capital ratio. As the exchange rate depreciates, the KRW value of a bank's foreign currency exposure increases, which in turn raises the FX RWA (both on and off the balance sheet). Depreciation also raises credit RWA from FX derivatives because the depreciation heightens credit risk at the counterparty failing to meet their obligations. To restore capital, banks would reduce risky assets from both on and off their balance sheets, making it harder for customers to meet their financial needs.

Graph 8 shows that aggregated domestic bank foreign currency RWA and credit RWA increased sharply alongside the KRW depreciation in Q3 2022.¹⁰ As the expansion in RWA outpaced capital buffers, banks' overall capital ratio decreased by 1.4 percentage points relative to the previous year, as depicted in Graph 9. To adjust to these pressures, banks reduced their overall supply of dollar funding to NBFIs and,

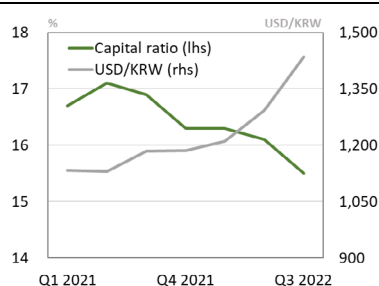
¹⁰ Foreign currency RWA are calculated by including both on-balance sheet loans denominated in foreign currencies and off-balance sheet FX derivative exposures. Credit risk weighted assets for over-the-counter (OTC) derivatives capture the counterparty credit risk arising from OTC derivative transactions. Due to data limitations, it is not possible to isolate the portion related specifically to FX derivatives. Therefore, we use total OTC derivative credit risk weighted assets, which includes exposure from equity, interest rate and other derivative transactions.

more importantly, shortened the maturity of those funding channels. Graph 10 shows that the total amount of dollar funding supplied to NBFIs through FX derivatives declined by about 10% in Q4 2022 compared to the previous year. In addition, the share of FX derivatives with remaining maturities of less than one month increased during this period. These patterns illustrate two dimensions of bank responses: an adjustment along the extensive margin (a reduction in total supply) and an adjustment along the intensive margin (a shift towards shorter maturities). Both adjustments act to heighten NBF dollar funding risks by shortening rollover horizons and reducing the availability of stable dollar funding instruments in the FX derivatives market.

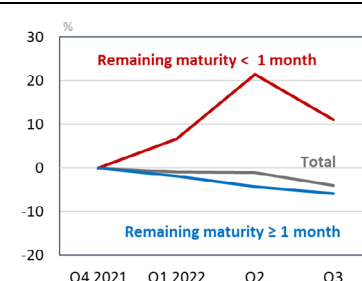
Graph 8. Domestic bank RWA growth rate and exchange rates



Graph 9. Domestic bank capital ratios and exchange rates



Graph 10. Domestic bank maturity structure of dollar funding supply to NBFIs



Graph 8 shows the (year-over-year) growth rates of domestic bank foreign currency RWA and credit RWA for OTC derivatives alongside the USD/KRW exchange rate. Foreign currency RWA includes (on-balance sheet) foreign currency loans and (off-balance sheet) FX derivative exposures, while OTC derivative credit RWA reflects counterparty credit risk from OTC derivative transactions, including FX derivatives. RWA growth rates are shown on the left-hand scale (%), and the USD/KRW exchange rate is shown on the right-hand scale. Graph 9 shows domestic bank aggregate end-of-period total capital ratios (%), left-hand scale) with the USD/KRW exchange rate (right-hand scale). Graph 10 shows the log of total forward USD long positions (grey) and the logs of forward USD long positions with remaining maturities below and above one month (red and blue), expressed relative to their values in Q4 2021 to represent cumulative log changes.

Sources: Bank of Korea, *Financial Stability Report*, December 2022; authors' calculations.

Liquidity ratio

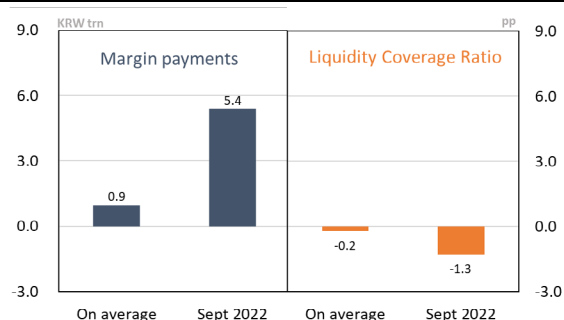
Sharp KRW depreciation can tighten liquidity conditions for domestic banks by triggering sizable variation margin calls on their FX forward dollar short positions. These positions are typically held vis-à-vis domestic affiliates of foreign banks, which act as intermediaries channeling dollar funding between domestic banks and global banks. Since many domestic bank customers, including NBFIs, are not required to post margin, domestic banks tend to bear most of margin call burden, potentially putting pressure on their liquidity buffers. As a result, the depreciation-induced increase in margin requirements dampens banks' liquidity ratios, with the magnitude of the impact varying across banks depending on their FX swap exposures. To restore their liquidity buffers, banks respond by issuing KRW-denominated bonds, particularly because margin payments are funded by liquidating KRW-denominated short-term government securities. This additional issuance of bonds, in turn, contributes to upward pressure on domestic market interest rates.

Graph 11 shows the eight major domestic banks' margin payments and liquidity ratios in September 2022 relative to their average levels from January to August 2022. It shows that banks paid a total of KRW 5.4 trillion in margin calls, a substantial increase compared with the average of only KRW 0.9 trillion. The graph also indicates that these banks' liquidity coverage ratios declined by an average of 1.3 percentage points highlighting the liquidity strain generated by the sharp rise in margin requirements.

Graph 12 shows that banks with larger FX forward dollar short positions in 2021 issued significantly more bonds during Q3 2022.¹¹ This pattern suggests that banks which were more exposed to variation margin calls responded to heightened liquidity pressure by issuing KRW-denominated bonds more aggressively than their less exposed peers. Such behaviour provides evidence that margin call constraints created meaningful liquidity stress, prompting banks to issue bonds to rebuild their liquidity buffers during the market turbulence in Q3 2022.

Additional margin payments for OTC derivatives and changes in the liquidity ratios of domestic banks

Graph 11



The left-hand panel shows the additional margin payments for FX derivatives made by the eight major domestic banks in each period. The right-hand panel shows the average changes in the Liquidity Coverage Ratio of the same eight banks over the corresponding period. "On average" refers to the monthly average values of each variable from January to August 2022.

Source: Bank of Korea, *Financial Stability Report*, December 2022.

¹¹ We examine whether banks with larger one-month USD short-forward positions vis-à-vis foreign bank branches increased their issuance of bank bonds more significantly during periods when variation margin burdens rose using a difference-in-differences specification,

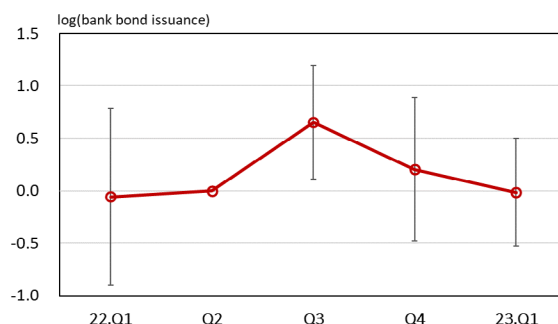
$$\log(\text{bank bond issuance})_{i,t} = \sum_{k=2022Q2} \beta^k I(t=k) I_i^{\text{High}} + \underbrace{\tau_t}_{\text{time FE}} + \underbrace{\alpha_i}_{\text{bank FE}} + \varepsilon_{i,t}$$

where $\log(\text{bank bond issuance})_{i,t}$ denotes the log of bank i 's bond issuance in period t , I_i^{High} is a dummy indicating whether bank i had a high USD short-forward position in 2021, and $I(t=k)$ is an indicator equal to 1 when $t=k$.

The regression exploits quarterly panel data up to Q4 2022, comparing changes in bond issuance between banks with high versus low forward dollar short positions, where exposure groups are defined based on their 2021 average positions. Within this framework, each coefficient β^k captures the changes in the difference in bond issuance between the two groups during period k , relative to Q2 2022. A statistically significant β^k therefore indicates that, during the corresponding period, banks with larger forward dollar short exposures increased their bond issuance more (or less) than banks with smaller exposures. By leveraging this identification strategy, we assess whether banks that faced greater margin call pressure expanded their bond issuance more aggressively than their less exposed counterparts, thereby providing evidence for the way in which margin call constraints translate into bank funding behaviour during episodes of market stress.

Bond issuance differences: large versus small US dollar forward short positions vis-à-vis foreign bank branches

Graph 12



This graph plots the coefficients from the difference-in-difference regression, capturing the additional increase in bond issuance by domestic banks with large forward USD short positions in 2021, relative to domestic banks with small forward USD short positions. The error bars indicate the 95% confidence intervals, and when the intervals include zero, the difference in bond issuance between the two groups is not statistically distinguishable from that in Q2 2022, the reference period.

Sources: Bank of Korea; Infomax; authors' calculations.

Policy responses

While such endogenous adjustment by banks helped restore the strength of their balance sheets, there were still potential risks at the customer end. The shift towards shorter maturities in FX derivatives heightened rollover risks at NBFIs. The newly issued bank bonds crowded out lower-rated corporate bonds, making it more difficult for firms to secure necessary funding.

To contain the build-up of these additional risks, the BOK promptly deployed several policy measures, including FX intervention and lending facilities. The primary objective of the FX intervention was to stabilise the heightened exchange rate volatility. The authorities conducted net sales of USD 17.5 billion during Q3 2022, the largest quarterly amount since intervention data became publicly available. This smoothing operation helped temper market participants' elevated expectations of further KRW weakening, thereby slowing the pace of currency depreciation. In parallel, the BOK implemented lending facilities to support local banks that faced liquidity pressure. Given the circumstances, the BOK also temporarily expanded the range of assets eligible as collateral. This broadened eligibility allowed banks to alleviate the regulatory burden associated with liquidity requirements and helped them to meet additional margin calls without excessively depleting their high-quality liquid assets.

5. Conclusion

Korea's transition to a net external creditor position has weakened the traditional transmission channel of external shocks that operated during its net debtor period. Nevertheless, as this study has shown, the domestic financial system remains exposed to global financial stress through several channels, including NBFIs maturity mismatches, asymmetric dollar funding demand, and off-balance sheet linkages with the banking sector. These mechanisms highlight that, despite an improved external balance sheet, Korea's domestic financial conditions continue to be sensitive to global financial developments.

Against this backdrop, the Bank of Korea continues to pursue price stability as its primary policy objective through inflation targeting, while also employing a range of policy tools as part of the Integrated Policy Framework (IPF) to safeguard financial stability and to mitigate excessive volatility in foreign exchange markets.

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