GREEN/20/14

March 20, 2020

Green Statement from Mr. Jin and Ms. Lok on the Republic of Korea - Financial System Stability Assessment (SM/20/65)

We thank staff for the insightful Financial System Stability Assessment (FSSA) and Mr. Heo, Mr. Shin, and Mr. Yoo for the useful statement and update. We broadly agree with the thrust of staff's assessment, and shall confine our comments to the following for emphasis.

We welcome staff's assessment that Korea's overall financial system remains resilient and commend the authorities for their sound micro- and macroprudential oversight. Facing growing vulnerabilities stemming from lower growth, adverse demographic shifts, and potentially disruptive fintech developments, we see merit in further enhancing the current supervisory and oversight framework, including by adopting a more forward-looking approach to systemic risks identification and monitoring.

We encourage the authorities to continue to keep a close watch on the household sector, where debt remains elevated and pockets of vulnerabilities may be on the rise. We take positive note of the existing borrower-based prudential measures, which have helped slow down the growth of household debt. Going forward, the implementation of a sectoral countercyclical buffer could potentially be a useful addition to the authorities' toolkit. We encourage the authorities to continue to remain vigilant, and refine their approach to addressing potential vulnerabilities in the household sector in a well-targeted manner, having regard to factors including the country's demographic shifts and unique aspects of the Korean real estate market.

The Korean authorities have made notable efforts in strengthening systemic risk oversight over the years. We encourage the authorities to continue to consider ways to further enhance the current macroprudential framework. In this regard, we believe staff have presented some useful suggestions for consideration. We also welcome staff's acknowledgment that there is no "one-size-fits-all" template for macroprudential frameworks. Meanwhile, to fully capture developments and risks in a systemic manner, we believe it is important to extend the regulatory perimeter to include financial conglomerates without a straightforward holding structure. As the fintech sector continues to grow and evolve, it is also essential to closely monitor the sector's impact on the financial system and respond accordingly to mitigate potential risks and vulnerabilities.

More generally, we wonder if going forward, it is possible to dedicate some space in FSSA reports for authorities' views and responses to staff's recommendations. We believe this would allow Directors a better understanding of the authorities' perspective and a more comprehensive view of the assessment exercise.

With these remarks, we wish the authorities every success with their policy endeavors.