

GREEN/20/20

March 23, 2020

**Green Statement from Mr. Mojarrad and Mr. Ahmed on the Republic of Korea—
Financial System Stability Assessment (SM/20/65)**

We thank staff for the comprehensive FSSA report and Messrs. Heo, Shin, and Yoo for their helpful statement. We broadly agree with the thrust of the staff appraisal and appreciate their hard work.

First of all, we sympathize with the people of the Republic of Korea at the rapid rise in COVID-19 virus since February 2020 and appreciate their innovative, aggressive and pre-emptive measures to contain the contagion. We are particularly encouraged by the early results of these measures which show that the daily number of new confirmed cases, which peaked at slightly over 900 on February 29, had decreased to 93 on March 18 and the fatality rate was low at 1.0 percent. We also support the fiscal and monetary policy measures to mitigate the economic fallout from the crisis including on the SMEs, small merchants and the affected businesses and households.

Korea's economy has strong fundamentals, supported by robust policy frameworks and a resilient financial system. Nevertheless, cyclical and structural headwinds amid the challenging global environment have hampered growth prospects with risks to the downside. We underscore the need for policies aimed at promoting balanced, private sector-led growth; fostering inclusion; and enhancing productivity.

We take positive note that Korea's financial system is among the most developed and internationally connected in Asia. The banking system has been steadily growing since the 2013 FSAP. With total assets reaching about 300 percent of GDP, the Korea financial system is now one of the largest in Asia. We commend the authorities on their continued efforts to upgrade the prudential, legal, and supervisory framework for the financial sector and adopting the international standards and practices in other G20 jurisdictions.

Owing to the strong past economic performance, new regulations, and continued state support, the Korean banking system is broadly prudentially strong. We are encouraged that the overall financial system appears resilient and the systemic risk analysis finds the banking system sound at present; however, as noted by the staff, prospects for banks and insurers are not very promising due to low interest rates and rising competition from fintech and nonbanks. Since Korea has a systemically important financial sector, there is no room for complacency. We note that a strong rules-based financial supervision is in place, but financial conglomerates and others

connected with the Korean financial system directly or indirectly are not under adequate systemic monitoring. We would, therefore, urge the authorities to consider the FSAP key recommendations emanating from the financial system stability assessment, particularly the immediate ones related to strengthening the institutional framework for financial stability by creating a specialized body tasked with macroprudential oversight as its sole primary objective; enhancing legal powers to cover all financial conglomerates; increasing risk-based supervisory intensity of insurers.

We are pleased to note that the authorities welcome the FSSA's positive assessment overall of the soundness and resilience of Korea's financial system. The financial sector, overall, remains resilient even under a very adverse scenario with the risk of systemic contagion within the financial system contained. They appreciate the Fund's recognition of good progress since the previous FSAP, especially on putting in place regulatory and supervisory regimes that are broadly in line with international standards. The authorities support many of the recommendations made in this FSAP.

Looking ahead, growth related uncertainties, and elevated household debt remain key risks to financial stability. We note the FSAP team's assessment that the adverse FSAP macro-financial scenario is severe enough to encapsulate a COVID-19 fallout on economic activity.

We wish the authorities success in their continued efforts.