

GREEN/20/21

March 23, 2020

**Green Statement from Mr. Chodos, Mr. Lischinsky and Ms. Moreno on the Republic of Korea—
Financial System Stability Assessment (SM/20/65)**

We thank staff for the comprehensive Financial System Stability Assessment (FSSA) and Mr. Heo, Mr. Shin, and Mr. Yoo for the useful statement and update, including the update on COVID-19 developments in Korea.

Korea has a highly developed financial system, in which most parts of the banking system appear prudentially robust. In addition, it has a strong framework to deal with risks and high-quality tools to implement micro- and macroprudential oversight. Since the 2013 FSAP, the banking system—and the broader financial system—has been steadily growing. Still, challenges to policy makers remain. Except for a couple of exceptions in which the key recommendations of the 2013 FSAP are fully implemented, the status of the remaining ones is partly or largely done. Hence, the 2020 staff recommendations add to those ongoing, against a backdrop of lower growth, adverse demographic shift, and potentially disruptive technologies.

Domestic risks are arising mainly from the highly leveraged household sector and the structure of the housing market. We agree with staff that banks should have a sectoral countercyclical buffer for their household exposures. We commend the authorities for the decisive implementation of macroprudential measures, aimed at containing risks derived from high housing prices that could revert abruptly.

On the external front, several risks should be considered, including spillovers from trade tensions, a protracted growth slowdown, and a tightening of global conditions. All these sources of potential shocks are even more worrisome considering COVID-19 developments, which will impose a drag on economic activity. In this regard, we take positive note and commend the authorities for advancing new regulations with continued state support, currently resulting in a resilient financial system.

We agree with staff on the recommendation to immediately strengthen the institutional framework for financial stability by assigning the adequate body (like the FSC/FSS) macroprudential oversight as its sole primary objective. Also, given the risk that financial conglomerates potentially pose to financial stability, we encourage the authorities to improve its supervision. Widening the definition of financial holding company so that financial conglomerates enter the supervisory perimeter and enhancing the legal powers of supervisors are recommendations from staff with which we concur.

The fintech sector and open banking development imply rising competition for banks. In addition, the growing popularity of e-money service providers could also raise liquidity risks, impacting financial stability.