

GREEN/20/24

March 24, 2020

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

We thank staff for its report and Messrs. Heo, Shin and Yoo for their useful statement. We share staff's appraisal and would like to offer the following comments for emphasis.

We would like to express our constituency's support for the Korean authorities' efforts to contain the spread of COVID-19 and its economic consequences. Given the expected negative effects of the virus in Korea, on both the health of its population and its economy, all financial stability considerations will need to be reassessed in light of the ongoing crisis. For this reason, the external communication of the FSSA report should take into consideration these developments.

Regarding the current FSSA, the Korean banking system remains strong, even after severe stress tests, although it is subject to the same challenges going forward as in most advanced financial systems, i.e. low profitability, increasing competition from fintech and adverse demographics. Moreover, both staff and authorities consider that elevated household debt and growing balance sheet vulnerabilities pose a risk to financial stability, despite the deployment of many prudential measures over the past few years. The corporate sector would appear to be less vulnerable reflecting, in part, large cash buffers, although its relatively high leverage would warrant attention. In this context, it is important to strengthen the quality of micro- and macroprudential policies, which is already high to start with.

We thus see merit in staff's proposals to address remaining vulnerabilities. A sectoral countercyclical buffer for household lending seems an appropriate complement to the borrower-based measures already implemented. We also concur with the need to assign to a single institution macroprudential oversight as its sole primary objective, while widening the definition of financial holding company would ensure that no systemic financial conglomerate would fall outside the supervisory perimeter. We also see merit in reviewing the role of state-controlled financial institutions, as they have a significant footprint in Korea's financial system. We note staff's concerns regarding the Financial Supervisory Service's inability to promptly act in an evenhanded and prudential way in the case of these institutions. Finally, we commend Korea's progress with the implementation of the environmental, social and governance (ESG) principles in the financial system, which will surely serve as an example to other economies.