

FSC CHAIRMAN HIGHLIGHTS THE ROLE OF FINANCE IN POST-PANDEMIC ECONOMY

FSC Chairman Eun Sung-soo attended the Financial Development Review Committee meeting on June 11 and spoke about the crucial role of finance in a post-COVID-19 era economy.

The following is a summary of Chairman Eun's remarks.

CHANGING ENVIRONMENT CAUSED BY PANDEMIC

Throughout history, large-scale epidemics triggered structural changes in social and economic orders. The COVID-19 pandemic, too, will bring an irreversible paradigm shift in the political, economic and social orders throughout the world. Many experts expect that a return to normalcy will not be possible. Therefore, forecasting the new paradigm and preparing for changes are important tasks.

(CHANGING INTERNATIONAL ORDER) The future of the Korean economy will depend on how well we prepare for protectionist trade policies and structural changes in global trade order and supply chains.

(CHANGING PATTERNS IN PRODUCTION, DISTRIBUTION & CONSUMPTION) Started as a mere phenomenon, access to 'untact' or non-face-to-face services has grown to become a part of ordinary economic activities. The changing patterns of production, distribution and consumption, such as more use of telecommuting, 'untact' economic services and online shopping, are expected to bring about fundamental changes in the economic structure.

In this regard, digital transformation is no longer an option but a necessity. The Korean economy's future competitiveness hinges upon how swiftly and effectively we carry out digital transformation for changing patterns in our economic activities.

(GROWING DEMAND FOR SOCIAL SAFETY NET) The COVID-19 pandemic has awakened our awareness for the safety of society. More attention is paid to inclusive economic policies. The changes in global supply chains and digital transformation will unfortunately lead to job losses in some sectors and create polarization. As such, the demand for social and economic safety nets is expected to increase.

ROLE OF FINANCE IN POST-PANDEMIC ECONOMY

Against this backdrop, the committee's meeting today provides an important venue to have active discussions about the future of finance in a post-pandemic era.

(INNOVATION IN FINANCE) With rapid developments of ‘untact’ services and digital transformation, big techs and non-financial companies have entered the financial industry, opening up competition between the traditional financial sectors and tech companies. Such ‘untact’ and digital technologies directly connect lenders and borrowers, threatening the traditional role of financial companies as an intermediary, while more ‘human-less’ financial services are being provided. Thus, understanding the challenges and opportunities of the digital era is necessary.

(FINANCE IN THE ULTRA-LOW RATE ERA) Since the global financial crisis in 2008, quantitative easing and low policy rates have been maintained, triggered by rate cuts from central banks in response to recessions. With the COVID-19 pandemic, we have entered an era of ultra-low rates. In this environment, the pursuit of traditional profit model by financial companies remains questionable. Thus, it is necessary to draw up new strategies to shift the operation of financial companies as well as ways to supervise them.

(RETURN TO NORMALCY) In order to support financial institutions’ efforts to boost their capital for providing financial assistance to the businesses, the FSC introduced temporary easing of regulations in loan-to-deposit ratio and liquidity coverage ratio, among others. The return to normalcy and reinstating the regulations will increase cost burdens for businesses, households and financial companies. As such, in order to minimize the resulting cost burdens for many stakeholders, sufficient policy discussions should take place prior to the reinstatement of regulations.

(ROLE OF FINANCE TO SUPPORT REAL ECONOMY) Faced with a slowdown in our growth potential, the Korean economy is in dire need of future growth engines. Korea’s medical and biohealth sectors are globally competitive, and our digital education and online platforms are equipped with experiences and know-hows. The role of finance in supporting innovative businesses with competitive edge remains crucial. In this regard, the business credit rating system should move away from past-dependent model toward a future-oriented one, which will rate firms based on their future potential instead of past performances. A well-balanced development between the public- and private-sector financial institutions should also take place.

(FINANCE TO PROVIDE SOCIAL SAFETY NETS) Inclusive finance is crucial to helping vulnerable groups regain their footing in the society. Solidarity and cooperation are needed for tackling the financial crisis. As such, financial safety nets should be strengthened to help foster innovation and entrepreneurship.

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For any inquiry, please contact Foreign Press & Relations Team at fsc_media@korea.kr.