Financial Services Commission

Press Release

October 27, 2022

REGULATION ON LOAN-TO-DEPOSIT RATIO TO BE TEMPORARILY EASED TO FACILITATE CORPORATE FINANCING

The FSC announced that financial authorities will temporarily ease the regulation on loan-to-deposit ratio, which will enable banks and savings banks to provide sufficient liquidity to businesses.

The demand for business loans increased as a result of the recent contraction of the corporate bond market.[1] However, the current regulation on loan-to-deposit ratio[2] has prevented banks from responding actively to these demands for borrowing. To facilitate active response, loan-to-deposit ratio is chosen as a first step of temporary regulatory easing because it is only domestically regulated and swiftly adjustable. Authorities will continue to monitor financial market situations and consider whether other deregulatory steps on such indexes like LCR (liquidity coverage ratio), NSFR (net stable funding ratio) should be taken.

DETAILS OF TEMPORARY REGULATORY EASING

To help banks and savings banks to more effectively respond to corporate loan requests, the loan-to-deposit ratio requirements will be eased from 100 percent for both to 105 percent for banks and 110 percent for savings banks. The eased loan-to-deposit ratio requirements will be applied for upcoming six months first, and authorities will take into account extending the period after reviewing market situation. With this easing of loan-to-deposit ratio requirements, banks and savings banks will have additional capacity to lend more to businesses. Furthermore, competition for deposit-taking is alleviated, and thus reduced borrowing costs will help in part to contain upward pressure on interest rates of corporate loans.

FURTHER PLAN

Financial authorities will issue a no-action letter in October to allow temporary easing of loan-to-deposit ratio rules immediately. Changing the calculation method will also take effect immediately with a no-action letter in October, but authorities will revise the supervisory regulation on banking business afterward to make the change officially. Authorities will maintain close communication with the financial sector to ensure stability in financial markets and closely monitor the lending and borrowing situations in the financial sector to ensure that eased regulations on loan-to-deposit ratio and LCR[3] lead to the stabilization of the current bond market situation.

# # #

For press inquiry, please contact Foreign Media Relations at fsc_media@korea.kr.

---

1 (Balance of corporate loans in banking sector) KRW1,445.6 trillion (end-2021), 1,493.0 trillion (Mar 2022), 1,557.4 trillion (Jun 2022, up KRW111.8 trillion from end-2021)

2 (Loan-to-deposit ratio requirement) Total loans in KRW / Total deposits in KRW ≤ 100%

3 Please click here to see the press release dated October 21, 2022.