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## FX STABILITY COUNCIL ANNOUNCES “ADDITIONAL MEASURES TO BOOST FX SUPPLY”

The Ministry of Economy and Finance (MOEF), the Financial Services Commission (FSC), the Bank of Korea (BOK), and the Financial Supervisory Service (FSS) held the Foreign Exchange (FX) Stability Council\* at the Korea Center for International Finance on Friday, March 7<sup>th</sup> (Chair: First Vice Minister Kim Beomseok). During the meeting, participants discussed the “Additional Measures to Boost FX Supply” and reviewed the progress of the “Plan to Revamp World Government Bond Index (WGBI) Investment Frameworks” (January 2025) and the “Measures to Facilitate Trading in Extended FX Market Hours” (January 2025). The Council also assessed the foreign currency liquidity conditions of domestic financial institutions.

*\* A vice-ministerial-level council for information sharing, policy consultation, and coordination among relevant institutions in the FX sector (attended by deputy heads of MOEF, FSC, BOK, and FSS).*

First, the participants discussed the “Additional Measure to boost FX Supply”. Since the announcement at the end of last December, it has been steadily implemented including raising the limit on banks’ forward exchange position, easing restrictions on foreign currency loans for domestic use by FX banks, and expanding FX swaps between the FX authorities and the National Pension Service. Based on continued market feedback, the FX Stability Council has now introduced additional measures to enhance FX supply while ensuring financial stability. The newly announced measures consist of two main objectives: ① Reinforcing the FX inflow deregulation policies announced last year, and ② Introducing measures to encourage increased investment in domestic assets to achieve a more fundamental balance in FX supply.

In addition, the participants reviewed the progress of the ongoing FX market reform aimed at external opening of the Korea’s FX market. They acknowledged that the first step in opening the FX market was smoothly taken by extending market trading hours until 2 a.m. since the latter half of last year, and transaction and settlement procedures have been conducted without incidents over the past eight months. Moreover, it was positively noted that not only global banks from traditional financial hubs such as London, New York, Singapore, and Hong Kong but also new financial institutions from regions like Europe and Taiwan – some of which had never entered the Korean market or had previously withdrawn – have shown significant interest by registering with the FX authorities as Registered Foreign Institutions (RFI)\*. In addition, the FX trading volume (spot exchange and swap transactions) of RFIs has been gradually increasing.

*\* Registered Foreign Institution: A foreign financial institution located overseas that meets certain requirements under the Foreign Exchange Transactions Act to participate directly in the Korean FX market. (Currently 44 institutions)*

*\* Interbank market transaction volumes of RFI (\$100 million, daily average): (Q3, 2024) 0.3 (Q4) 0.73 (Jan-Feb, 2025) 4.25*

Furthermore, the participants assessed that improvement measures to secure liquidity in the extended trading hours are progressing sequentially; the revision of the Foreign Exchange Transactions Act, which had been promoted for the introduction of aggregators\*, was completed (passed in the National Assembly plenary session on February 27<sup>th</sup>); the revision of the Foreign Exchange Transactions Regulations, which includes policy tasks announced in January, such as allowing RFI's foreign currency exchange for current transactions, was completed on February 10<sup>th</sup>.

*\* Unlike the existing FX brokerage business that intermediates wholesale transactions between financial institutions, the aggregators intermediates retail transactions between customers (such as companies) and financial institutions, allowing customers to transact with financial institutions offering the most favorable prices.*

Participants stressed the importance of ongoing efforts to facilitate FX market; while last year focused on stabilizing the new system, efforts should now be directed toward ensuring the tangible effects of market opening, which includes addressing sharp declines in liquidity during late-night hours and expanding RFI participation in transactions to further facilitate the market. Most of all, participants agreed to steadily implement the tasks outlined in the “Measures to Facilitate Trading in Extended FX Market Hours” announced in January: The establishment and revision of guidelines on currency exchange for third-party FX transactions and current transactions (March), the disclosure of FX trading volume rankings (March), the introduction of the Leading RFI Program (June), the establishment of minimum transaction volume standards for RFIs (June), and the amendments to the subordinate regulations related to the aggregator system. In particular, the government aims to finalize specific details related to the operation of the aggregator system – such as licensing requirements, approval procedures, and eligible counterparties – before the revised law takes effect at the end of August this year. Besides, revisions to subordinate regulations, including the Enforcement Decree of the Foreign Exchange Transactions Act and the Foreign Exchange Transactions Regulations, will be completed within this timeframe.

Last but not least, the participants reviewed the recent status of financial institutions' foreign currency liquidity and discussed response measures. Last year alone, Korea's net external financial assets increased by \$292 billion, allowing the country to join the ranks of nations with a \$1 trillion surplus for the first time in 10 years (As of the end of 2024, Korea's net external assets stood at \$1.1023 trillion). Given this robust external soundness, financial institutions' foreign currency liquidity has been positively assessed as maintaining a stable trend; in February, domestic banks' foreign currency Liquidity Coverage Ratio (LCR) significantly exceeded the regulatory requirement of 80%, reaching 163.1%, and they hold \$39.8 billion in available foreign currency liquidity, which is over 127% of their maturing borrowings due within three months. The participants agreed to continue closely monitoring the foreign currency liquidity situation of financial institutions and to hold in-depth discussions through the FX Stability Council if any necessary measures arise.