Minutes of the Monetary Policy Board Meeting

November 2020

Bank of Korea

(English version)

Minutes of the Monetary Policy Board Meeting[1)]

(November 2020)

Ⅰ. Outline

1. Date of meeting: Thursday, November 26, 2020

2. Place: Monetary Policy Board Meeting Room

3. Monetary Policy Board members present:
   Lee, Juyeol, Chairman (Bank of Korea Governor)
   Koh, Seung Beom
   Lim, Jiwon
   Cho, Yoon-Je
   Suh, Young Kyung
   Joo, Sangyong
   Lee, Seungheon (Senior Deputy Governor)

4. Monetary Policy Board members absent: none

5. Participants:
   Jang, Ho Hyun, Auditor
   Ryoo, Sangdai, Deputy Governor
   Chung, Kyuil, Deputy Governor
   Park, Jong Seok, Deputy Governor
   Lee, Hwan Seok, Deputy Governor
   Bae, Joonsuk, Deputy Governor
   Yang, Seok Jun, Director General of Reserve Management Group
   Kim, Woong, Director General of Research Department
   Min, Jwa Hong, Director General of Financial Stability Department
   Lee, Sang Hyeong, Director General of Monetary Policy Department
   Kim, Inkoo, Director General of Financial Markets Department
   Kim, Hyun Kee, Director General of International Department
   Shin, Woon, Director of BOK Economic Research Institute
   Park, Young Chool, Press Officer
   Chae, Byung Deuk, Director General of Monetary Policy Board Secretariat
   Sung, Kwang Jin, Head of MPB Team

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1) This English version (summary) of the minutes of the Monetary Policy Board Meeting was produced at a working level, and is not an official document.

Ⅱ. Summary of Discussions on the Current Economic Situation

After briefings by staff on *Economic Outlook (November 2020)*,[2] *FX and International Finance Trends*, and *Financial Market Trends*, the discussions of the Monetary Policy Board (MPB) members covered the following areas:

Members expected the growth path of the domestic economy to slightly exceed the previous forecast. By sector, members forecast that private consumption, and face-to-face services in particular, would continue to recover at a slow pace, while exports would continue improvement thanks chiefly to recoveries of major economies and facilities investment would exhibit recovery centering around the IT sector. However, members evaluated that high upside and downside risks, such as the resurgence of COVID-19 and the timing of the rollout of vaccines, continued to surround the growth path of the domestic economy.

Members forecast that employment sluggishness would ease gradually, but it would take a substantial period of time for employment to get back to its pre-crisis level. Members expressed particular concerns that the employment shock from COVID-19 had been relatively concentrated on vulnerable groups, including the low-income group, small business owners and young people.

Concerning inflation, members expected that prices would rise at a somewhat faster pace, affected largely by improvements in economic activity and lower downward pressures on inflation from government policy. One member expressed the view that inflationary pressures might be larger than expected next year, considering the rapid recovery of personal services prices.

Meanwhile, members' evaluation was that domestic and international financial and foreign exchange markets generally remained stable. However, members pointed out that household debt growth was accelerating and risk appetite was strengthening amid the continued accommodative financial conditions, and went on to stress that continued attention should be paid to the possibility of an accumulation of financial imbalances. The majority of members also presented the opinion that it would be necessary to pay attention to the possibility of sharp fluctuations in the USD/KRW exchange rate having substantial impacts on financial stability as well as on the real economy.

2) An English version of *Economic Outlook (November 2020)* is posted on the Bank of Korea website.

Ⅲ. Discussions Concerning Monetary Policy Decision (Summary)

The main details of the MPB members' discussions concerning a change in the Bank of Korea Base Rate were as follows:

All members shared the view that, in overall consideration of the domestic and international financial and economic environments, it would be desirable to keep the Base Rate at the current level of 0.50%.

One member presented the view that it would be desirable to keep the Base Rate at the current level.

The member expected that, although the global economic recovery had been slowing somewhat with the accelerating spread of COVID-19, the global economy would sustain its modest recovery, as uncertainties related to the US presidential election had eased and the likelihood of early rollout of vaccines was increasing amid the accommodative policy stances of countries around the world.

As for the domestic real economy, the member noted that the pace of the decline in exports had been slowing more rapidly than expected, boosted by the global economic recovery, and facilities investment had shown a relatively favorable recovery. The member saw that, although the construction sector had continued to go through a correction and the face-to-face services sector had experienced a delay in improvement, production and investment had been overall showing modest recoveries. The member added that private consumption had been exhibiting a slow recovery, as consumption of face-to-face services had remained extremely sluggish while goods consumption had continued to grow. Looking at employment, the member mentioned that the number of persons employed remained on a downward trend, since even industries with improving business conditions were rehiring workers on temporary leave and increasing working hours rather than hiring new workers. The member took the view that it would be necessary to closely monitor whether any changes were taking place in the employment structure of the domestic economy, given the sharp decline in the number of persons employed despite the overall recovery of production and investment. Meanwhile, the member forecast that inflation would remain in the low- to mid-0% range for some time and start to rise gradually next year.

Concerning the financial markets, the member saw that accommodative financial conditions continued with both household and corporate lending showing faster growth recently and asset prices continuing to rise. The member emphasized that the gap between financial and real economic conditions seemed to be widening due to the necessary, sustained monetary policy accommodation at home and abroad to support real economic recovery, and in this regard, careful monitoring of the medium- and long-term effects was needed.

The member expressed concerns that, after having improved slightly since October, face-to-face services industries might shrink again in line with the recent continuous growth in the number of domestic confirmed cases and the strengthening of social distancing measures. The member expected that it would take a considerable period of time for the deployment of vaccines to completely resolve public fears about virus infection. The member judged that, under these circumstances, it would be necessary to maintain accommodative monetary policy until the real economy exhibits a clearly marked recovery, and in this regard, it would be appropriate to keep the Base Rate unchanged for the intermeeting period.

Another member presented the view that it would be desirable to hold the Base Rate at its current level of 0.50% for the intermeeting period.

The member's evaluation was that, despite the resurgence of COVID-19, the global economy had been sustaining a gradual recovery since the third quarter. The member assessed that import demand from advanced countries had been improving centering around imports of durables and the Chinese economy had also been favorable with exports and domestic demand increasing.

The member stated that the Bank of Korea had adjusted its domestic economic growth forecast upward this time in reflection of the recent faster-than-expected improvement in exports, and presented the view that the favorable movements of Korea's exports despite the unprecedented shocks from the COVID-19 pandemic reaffirmed the importance of Korea's main manufacturing industries, including semiconductors and automobiles, as the axis of growth. However, the member pointed out that the gap between economic indicators and economic sentiment had been widening even further, as improvement in exports had been enjoyed only by some industries and domestic demand including consumption and construction had been sluggish. Concerning private consumption, the member noted that, despite the rise in household income in line with increased government transfer payments, the resurgence of COVID-19, combined with widening income imbalances and growing leasehold deposits and monthly rents, had been limiting recovery of private consumption. The member expressed concerns that those in their 20s and 30s had recently been actively purchasing houses through leverage, and considering their high marginal propensity to consume, this could permanently diminish the consumption base. The member also added that the sluggishness of SMEs, small business owners and the construction sector, all of which accounted for great job creation effect, would make it difficult for employment to show a clearly marked recovery for a considerable period of time. Meanwhile, the member forecast that inflation would remain low at the 0% level until the first half of next year, influenced by weak inflation pressures on both the supply and demand sides.

Looking at recent trends in the financial sector, the member stated that financial conditions had been showing a far stronger recovery than the real economy, with stock prices rising and the USD/KRW exchange rate declining, supported by ample liquidity and expectations of an economic recovery, and went on to point out that vigilance against financial imbalances was growing accordingly. The member expressed concerns that, although housing price growth had slowed somewhat, expectations that they would rise further remained strong, leading to a sharp increase in household debt. The member added that the pace of increase in lending to SMEs had been accelerating again, suggesting a higher risk of potential defaults.

Taking all this into consideration, the member expressed the view that, although the domestic economy had been showing recovery after having bottomed out in the second quarter, uncertainties at home and abroad remained high and the quality of economic growth was insufficient, and in this regard, it would be desirable to keep the Base Rate at its current level this time and maintain the current accommodative monetary policy stance for a considerable period of time. However, the member stressed that, against a buildup of financial imbalances, the Bank of Korea should work in cooperation with the government and the supervisory authorities to closely examine and actively deal with overall risk factors. Meanwhile, the member added that Treasury and other bond issuance was highly likely to increase next year while demand from foreigners and domestic long-term investment institutions was expected to weaken, and that it would be necessary to review the idea of further increasing asset purchases in order to ease the volatility of long-term market interest rates.

One member presented the view that it would be desirable to keep the Base Rate unchanged at its current level.

The member’s assessment was that the global economy had continued to show gradual improvement, with the manufacturing sector exhibiting stronger recovery. The member stated that there remained high uncertainties surrounding the future growth path due to the latest resurgence of COVID-19 particularly in major advanced countries, but the resulting contraction in economic activity was expected to be smaller than that seen in the first half of this year, since lessons learned from earlier in the pandemic had weakened the relationship between lockdown measures and economic activities while expectations of access to vaccines had been easing risk-off sentiment in the financial markets.

The member evaluated the domestic economy as having sustained relatively favorable improvement boosted by exports and goods consumption. The member however mentioned that production activities in major industries had not fully returned to their pre-COVID-19 level and the third wave of the virus was expected to cause further economic losses. Most of all, the member expressed concerns that the repeated spread of COVID-19 and strengthening of measures to combat the pandemic had led to the accumulation of losses in face-to-face services industries accounting for great job creation effect, and as a result, employment sluggishness was likely to continue for an unusually long period of time and the consumption capacities of low-income households with relatively high marginal propensity to consume could shrink even further. The member added that, looking at the supply side, the business base of small business owners and micro businesses could be undermined, consequently weakening growth potential.

In light of this, the member took the view that, while maintaining the accommodative monetary policy stance to support real economic recovery and stabilize inflation expectations, it would be necessary to pay attention to some distinctive points that had been seen since the outbreak of COVID-19.

First, the member noted that with economic losses from the pandemic concentrated in certain industries, the gap in economic conditions among sectors and income groups had been widening significantly, which could weaken the correlation among economic cycle of individual industries and limiting the virtuous circle with demand conditions, and in this regard, continued policy attention was needed on vulnerable sectors.

Second, the member pointed out that, given the wide gap between asset prices and the real economy and high uncertainties related to the pandemic, it would be difficult to completely rule out the possibility of a rapid increase in financial market volatility and a consequent tightening of domestic financial conditions. The member added that it should be noted that the transmission of accommodative monetary policy could be limited if a crowding-out effect from increased Treasury bond issuance caused market interest rates to rise significantly or continued global dollar weakness accelerated the appreciation of the Korean won.

Finally, the member's assessment was that leveraging had been increasing consistently, which was in contrast with the substantial deleveraging seen in the private sector during previous economic crises. The member particularly pointed out that household debt had been growing at a much faster pace recently despite various micro-level regulations, and went on to stress that debt-servicing capacities of individual sectors should be closely monitored in order to prevent an excessive accumulation of debt burdens from making temporary liquidity problems develop into solvency risks or acting as a downside risk to the medium- and long-term growth path.

Taking all this into consideration, the member judged that it would be desirable to hold the Base Rate at its current level of 0.50% while continually examining financial stability conditions and the need for selective support for vulnerable sectors.

Meanwhile, another member presented the view that it would be appropriate to keep the Base Rate unchanged from the current level.

The member assessed that, although the possibility of COVID-19 vaccine and treatment rollouts had been materializing, uncertainties surrounding the growth path still remained high due to the accelerated resurgence of the COVID-19 pandemic at home and abroad. The member pointed out that, although the performance of exports led by semiconductors was more favorable and the decline in global goods trade had been slower than previously forecast, the contraction in private consumption had not been eased easily. The member's assessment was that, although the domestic economy would achieve growth at around 3% next year, it would not be enough to cover the gap with potential GDP, given the degree to which production had contracted this year. The member thus presented the opinion that there was no reason to preemptively change the current monetary policy stance for now.

The member saw that inflation was continuing to show no more than a moderate rebound of late. The member noted that, as an example, looking at core inflation with administered items excluded to rule out policy factors such as the government's telecom bill subsidy, the growth rate in October this year stood at 1.1% year on year, showing a sign of recovery from the lowest points in March and April, when the shocks from COVID-19 were the greatest. The member, however, explained that it was too early to assess that a rebound had fully begun.

The member's assessment was that, while employment had bottomed out, its pace of recovery was very moderate. The member presented the opinion that, if economic recovery materialized in the future, employment would consequently grow. The member, however, noted that attention should be paid to the following ongoing structural changes. The member commented that, most importantly, the fact that the working-age population (aged 15-64) was decreasing rapidly from this year could weigh on the recovery of growth and employment. The member also pointed out that structural changes were underway in industry-level employment. The member explained that, for example, although manufacturing production activity had already recovered to the pre-pandemic level, employment had not emerged from its decline, and the expanded non-face-to-face consumption structure could cause chronic sluggishness in employment.

The member, meanwhile, raised the concern that the growth rate had been showing a secular decline so far, regardless of the pandemic, and the COVID-19 employment shock was heavily impacting vulnerable groups, thus worsening income distribution. The member saw that, although the COVID-19 pandemic would end eventually, its aftereffects were unlikely to be small. The member, thus, emphasized that the government policy measures to ensure a recovery in employment and improvement in distribution should be maintained for a considerable time. The member also added that the accommodative monetary policy stance should be kept unchanged in order to supplement and support an expansionary fiscal policy.

Taking all this into consideration, the member expressed the view that it would be necessary to hold the Base Rate at its current level and to leave open the possibility of using selective tools to provide growth opportunities to vulnerable sectors. The member added that, if the trend of imbalanced growth and low inflation continued despite an economic rebound in the future, it would be necessary to rationally restructure and make active use of the Bank Intermediated Lending Support Facility.

One member presented the view that it would be desirable to keep the Base Rate unchanged from the current level.

The member’s assessment was that the domestic economy, and exports and facilities investment in particular, had been maintaining steady improvement of late. The member expected the domestic economy to continue a better-than-expected recovery in the future on improvement in the global economy. The member, however, assessed that uncertainties surrounding the future growth path were still high due to the rapid resurgence of COVID-19 at home and abroad of late.

The member stated that, in the November economic outlook, the economic growth rates for this year and the next were revised slightly upward from the previous forecasts under a baseline scenario in which the domestic resurgence of COVID-19 would continue this winter. The member went on to argue that attention should be paid to extremely high uncertainties as to how serious the resurgence would be and how long it would last, and when COVID-19 vaccines and treatments would roll out. The member saw that, looking at inflation, consumer price inflation was forecast to remain in the mid-0% range, similar to that seen last year, on weaker demand-side upward pressures, and impacts of low oil prices and government policy measures. The member, however, forecast that consumer price inflation would rise to the 1% range next year, as downward inflationary pressures from the government policy measures would decrease and the economy would improve.

The member's assessment was that the domestic financial markets remained stable overall, influenced by the accommodative monetary policy stance. The member noted that stock prices had risen sharply and market interest rates had also increased, on improved investment sentiment in the financial markets stemming from stronger expectations for economic recovery following improvements in major economic indicators, from the easing of uncertainties related to the US presidential election, and from expectations for early development of vaccines. The member added that, while deposit and lending rates at financial institutions remained stable, financial institutions' supply of credit to corporations also remained active, as seen in a slight increase in M2 growth. The member also noted that the FX market was also gradually regaining stability as the US dollar became less volatile.

The member presented the opinion that these latest financial conditions appeared to make up for the shortfall of demand stemming from COVID-19, thus supporting recovery in the domestic economy. The member, however, emphasized that, particularly since housing price growth and the resulting household lending growth had accelerated of late, if financial conditions further ease, negative impacts on financial stability should be closely watched for.

The member noted that, in conclusion, although the domestic economy was showing recovery, the accommodative financial conditions should be continued in an effort to offset the ongoing negative impacts of COVID-19. The member also saw that it would be necessary to symmetrically consider both uncertainties inherent in the future growth path and potential factors causing financial instability. The member thus presented the view that it would be necessary to keep the Base Rate at the current level of 0.50%, and to maintain the accommodative monetary policy stance until the economy is projected to maintain a stable recovery.

Another member presented the view that it would be desirable to hold the Base Rate at its current level for the intermeeting period.

The member saw that, although the world economy had shown modest improvement since the October meeting, led by the US and China, the degree of such improvement could be limited until early next year due to the latest resurgence of COVID-19 in major countries.

The member was concerned that, although the domestic real economy had shown a better-than-expected performance, thanks for instance to strong exports, the resurgence of COVID-19 could have negative impacts in the future. The member expected that, looking into specific sectors, while private consumption was unlikely to rebound sharply even in the coming year, facilities investment would maintain a trend of recovery, bolstered by the resumption of investment in the non-IT sector, and construction investment would shift to an increase next year after showing sluggishness so far. The member saw that, despite the resurgence of COVID-19, exports would maintain a trend of improvement next year as well, thanks to a gradual global economic upturn. The member noted that employment was likely to improve, albeit moderately, thanks to the recovery in demand for face-to-face services stemming from gradually decreased effects of COVID-19. The member, however, presented the opinion that it would take considerable time for employment to return to the pre-pandemic level, and thus careful attention should be paid to situations in vulnerable sectors, such as services industries and temporary workers. The member, meanwhile, expected prices to show growth somewhat higher than that seen this year, due mainly to a rise in global oil prices and a smaller decline in administered prices.

The member noted that, although in the November outlooks the GDP growth forecast for next year was revised slightly upward from the previous forecast, uncertainties surrounding the domestic and global economies were very high. The member thus emphasized the need for thorough monitoring of various possible upside and downside risk factors. The member saw that, although the economy would show moderate recovery from next year, the negative GDP gap would be expected to last for a considerable time, and inflation was projected to run well below the target. The member thus judged that the accommodative monetary policy stance should be maintained.

The member's assessment was that the international financial markets remained stable, thanks to subsided risk aversion stemming from expectations for vaccine development, and the domestic financial markets also showed stability. The member noted that the financial markets had swiftly regained stability following the COVID-19 outbreak thanks to bold responses taken by the Bank of Korea and the government. The member, however, was concerned that under the current accommodative financial conditions which had been created in this process, household debt was increasing rapidly. The member, meanwhile, presented the opinion that, although the exchange rate had smaller impacts on prices and exports compared to the past, the latest sharp increase in exchange rate volatility should still be closely monitored.

In overall consideration of the above-mentioned points, the member expressed the view that it would be desirable to keep the Base Rate at its current level of 0.50%.

Ⅳ. Results of Deliberation on Monetary Policy Directions

Incorporating the outcome of the above discussions, the following Monetary Policy Decision statement was compiled. All MPB members supported the decision unanimously.

Monetary Policy Decision

☐ The Monetary Policy Board of the Bank of Korea decided today to leave the Base Rate unchanged at 0.50% for the intermeeting period.

☐ Currently available information suggests that the global economy has continued to recover, but the pace of recovery has been slow due to the ongoing resurgence of COVID-19. In global financial markets, risk aversion has subsided on improvement of economic indicators and hopes for coronavirus vaccine development. Stock prices in major countries and government bond yields have risen and the US dollar has weakened. Looking ahead, the Board sees global economic growth and global financial markets as likely to be affected largely by the severity of the resurgence of COVID-19 and the status of vaccine development, as well as by national policy responses and their effects.

☐ The Korean economy has continued to recover at a modest pace. Although the recovery in private consumption has been slow and the correction in construction investment has continued, facilities investment has started to recover and the improvement in exports has continued. Labor market conditions have remained weak, with the number of persons employed continuing to decline sharply compared to the corresponding period last year. Going forward, the economy is likely to recover gradually, led mainly by exports and investment. However, uncertainties surrounding the economic outlook are judged to remain elevated. GDP is projected to grow at slightly below -1% in 2020 and around 3% in 2021.

☐ Consumer price inflation has slowed to the lower-0% level due to the sharp decline in the prices of public services. Core inflation (excluding changes in food and energy prices from the CPI) recorded a negative rate, and the inflation expectations of the general public have moved down slightly within the upper-1% range. It is forecast that consumer price inflation and core inflation will run at the low- to mid-0% level for some time and then moderately increase to around 1% in 2021.

□ In domestic financial markets, stock prices have risen considerably and the Korean won to US dollar exchange rate has fallen significantly while long-term market interest rates have risen, affected by various factors such as global financial market movements and improvement of economic indicators. Household loan growth has picked up and housing prices have continued to increase in all parts of the country.

□ The Board will continue to conduct monetary policy in order to support the economy and stabilize consumer price inflation at the target level over a medium-term horizon, while paying attention to financial stability. As the recovery in the Korean economy is expected to be modest and inflationary pressures on the demand side are forecast to remain weak, the Board will maintain its accommodative monetary policy stance. In this process it will thoroughly assess developments related to the pandemic, the impact on the economy and financial markets here and abroad, changes in financial stability such as household debt growth, and the effects of the policy measures taken in response to the pandemic.