Minutes of the Monetary Policy Board Meeting

March 2020

Bank of Korea

(English version)

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(March 2020)

Ⅰ. Outline

1. Date of meeting: Monday, March 16, 2020

2. Place: Monetary Policy Board Meeting Room

3. Monetary Policy Board members present:
   Lee, Juyeol, Chairman (Bank of Korea Governor)
   Lee, Il Houng
   Cho, Dongchul
   Koh, Seung Beom
   Shin, Inseok
   Yoon, MyunShik (Senior Deputy Governor)
   Lim, Jiwon

4. Monetary Policy Board members absent: none

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

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. 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:

The majority of members presented the view that, in overall consideration of the domestic and international financial and economic environments, it would be desirable to lower the Base Rate by 50 basis points, while one member argued for a 25 basis point cut.

One member presented the view that it would be appropriate to lower the Base Rate from the current 1.25% to 0.75%.

The member evaluated that there had been a significant change in the domestic and international financial and economic environments since the February meeting. The member pointed out that the rapid nationwide and international spread of COVID-19 had contracted economic activities tremendously and heightened volatility in the financial and commodity markets. The member expressed concerns that the possibility could not be ruled out of an extreme situation where the contraction in economic sentiment led to a vicious circle between the real economy and financial markets, undermining financial system stability just as during the global financial crisis. The member noted that this perception of the current situation was a reason for holding today's interim meeting and argued that it would be desirable to cut the Base Rate from the current 1.25% to 0.75%.

The member stated that major central banks had recently been strengthening their accommodative monetary policy stances through rate cuts and quantitative easing policies, while the Korean government and the National Assembly were also compiling a supplementary budget. In this regard, the member went on to assess that the central bank's Base Rate cut would be significant in terms of international monetary policy cooperation and also in terms of the coordination of monetary and fiscal policy. The member mentioned that, if the central bank lowered the Base Rate to a record-low in the 0% range, this would have the positive impact of boosting the real economy, including growth and inflation, by reducing borrowing costs for households and businesses. The member went on to state that, at the same time, however, this could add to the negative side effects of low interest rates in financial stability terms, such as an over-concentration of capital in the housing market or a possible outflow of foreigners' investment funds, which had been of concern to the MPB. The member took the view that, in light of this, it was essential to have a mix of macroprudential and tax policies that would more firmly ensure stability of the housing market and foreigners' capital flows.

Another member presented the view that it would be desirable to cut the Base Rate by 50 basis points from the current 1.25% to 0.75%.

The member assessed that COVID-19 was spreading worldwide at a faster-than-expected pace and its future trajectory had become extremely uncertain. The member pointed out that the priority should be placed upon aggressive disease control and sufficient financial support for the sudden surge in disease control activities. The member added that aggressive financial support was also needed for businesses and vulnerable groups experiencing a temporary crisis triggered by an unexpected shock.

On the other hand, the member evaluated the current real economic and financial market conditions as indicating that problems were spreading beyond the sectors directly exposed to COVID-19 to the entire economy. The member expressed concerns that global mobility restriction, as long as it continued, would inevitably exert a negative supply-side shock and that the global economic downturn was causing export demand to decline. The member went on to state that a vicious circle had been created in which worsening economic sentiment had been triggering instability in the financial markets as a whole, again contracting domestic demand and leading to a real economic slump. In other words, the member's assessment was that COVID-19 was not only having impacts at the micro and sectoral levels but also developing into macroeconomic and aggregate demand shocks. The member also pointed out that, if this contraction in aggregate demand lasted for a longer period of time, Korea's already low underlying inflation would decline even further and add to concerns about deflation risk.

The member argued in this regard that an aggressive response was required through the concerted efforts of both the financial authorities taking microeconomic measures and the monetary authorities responsible for macroeconomic policies. The member expected that, although a Base Rate cut was unlikely to ease mobility restriction and thus boost consumption and investment directly, it would help reduce the burden of troubled households and businesses and curb the spread of financial market unrest, consequently easing the vicious circle of economic downturn through the aggregate demand channel.

With all this taken into consideration, the member took the view that it would be appropriate to lower the Base Rate by 50 basis points and continue to operate monetary policy flexibly going forward.

Another member presented the view that it would be advisable to cut the Base Rate by 25 basis points from the current 1.25% to 1.00%.

The member evaluated that COVID-19 had been spreading more quickly and extensively than expected over the past couple of weeks since the previous monetary policy decision meeting, and that as a result domestic and external economic conditions had been changing dramatically. The member expressed concerns that the outbreak of the virus, initially concentrated in Northeast Asia, had become a pandemic, and that this was heightening global economic uncertainty and greatly aggravating domestic and overseas financial instability.

The member mentioned that what should be noted in discussing the necessary policy responses to deal with this situation was that, amid an increasing possibility of the demand contraction continuing longer than expected, the cash flows of goods and services suppliers were worsening. The member expressed the opinion that this liquidity issue was as of now limited to small business owners and SMEs and thus direct and selective liquidity support for damaged sectors still seemed more effective, but considering the following matters, it would be desirable to implement a rate cut as well at this meeting.

First, the member noted that, looking at the recent trend of credit spreads in major countries and international financial markets, the possibility could not be ruled out that Korean companies' liquidity issue could become more and more serious or develop into a more extensive credit crunch issue amid increasing risk aversion in the financial markets.

Next, the member pointed out that, although it was difficult to predict the medium- and long-term impacts of the virus outbreak on the economy, its negative impacts were highly likely to last longer than usual, since social distancing and mobility restriction were regarded as the best available measures to control the disease in most countries. Accordingly, the member's assessment was that, even if the spread of the virus outbreak eased, the economic rebound in the course of recovery could be only modest compared with the past, and in this regard, downward pressures on the medium-term growth path and inflation were actually growing.

Finally, the member evaluated that a more accommodative monetary policy stance would be needed, given that financial conditions were estimated to become less easy with the sharp drop in risky asset prices and the rise in their volatility in the financial markets, and assessed that a crowding-out effect might occur due to increased bond issuance to finance the supplementary budget.

Meanwhile, concerning the degree of Base Rate adjustment, the member took the view that, although the US Federal Reserve's rate cuts had led to an increase in policy flexibility for non-key currency countries, attention should be paid to heightening volatility and credit risk aversion in the global financial markets. The member added that if concerns about global economic recession mounted, this could lead to heightening volatility in the domestic FX market. For this reason, the member stated that it would be appropriate to gradually adjust the degree of monetary easing while closely monitoring changes in the domestic and international financial and economic environments, rather than using up traditional monetary policy space within a short time, and suggested a 25 basis point rate cut in this regard.

Another member expressed the opinion that it was desirable to lower the Base Rate by 50 basis points from the current 1.25% to 0.75%.

The member expected that the economic spillover effects of COVID-19, which had been spreading rapidly since the February MPB meeting, would be greater and last longer than previously forecast. The member thus judged that, since the likelihood had increased that the contraction of economic activity would lead to permanent losses in production capacity and labor, it was desirable to cut the Base Rate by 50 basis points.

The member expected international financial markets to stabilize to some extent, thanks to various monetary policy measures taken by the US Federal Reserve on March 15, and to global measures to support the provision of US dollar liquidity in line with consultations among major central banks. On the domestic front, the member judged that at this time it was of utmost importance not only to strengthen the policy efforts to expand social safety nets and provide financial support for small business owners, but also to secure as much as possible the conditions for domestic firms to overcome the current situation while minimizing production capacity losses. The member thus took the view that the adoption of several additional measures should be considered again, depending on how relevant conditions develop.

The member, however, added that, in order to enhance the efficiency of this highly expansionary monetary policy and curb financial imbalances, it was urgently needed to supplement the system which might induce concentration in the credit channel.

One member expressed the opinion that it was appropriate to lower the Base Rate by 50 basis points from the current 1.25% to 0.75%.

The member's evaluation was that, since the spread of COVID-19 had gathered pace across the globe since the previous MPB meeting, the negative impacts on the economy were rapidly increasing. The member saw that, particularly since the spread had started in the US and the EU, pillars of the global economy and finance, the situation was no longer a regional shock but had evolved into a global economic shock. The member added that, since uncertainties related to the coronavirus itself remained high, global financial market unrest had intensified and the global financial system had become more unstable.

The member's assessment was that, although the domestic spread of COVID-19 was showing signs of slowing somewhat, the negative impacts on the domestic economy were increasing as the COVID-19 pandemic intensified into a global economic shock. The member also pointed out that heightened asset price volatility due to the increased global financial market unrest was also negatively affecting the domestic financial markets.

The member saw that it was necessary to prepare for large declines in the growth and price paths this year, and in the short term actively cope with the heightened liquidity risk for all economic agents. The member thus expressed the opinion that bold monetary policy measures should be implemented, going beyond increased liquidity support for vulnerable sectors. The member thus argued for cutting the Base Rate by 50 basis points.

Another member stated that it would be desirable to revise the Base Rate downward from the current 1.25% to 0.75%.

The member noted that the aftershocks of COVID-19 had appeared to be confined to China and Korea at the time of the February MPB meeting. The member, however, evaluated that the subsequent spread of the virus to the rest of the world, including the US and Europe, had developed into a crisis situation that raised concerns about shocks to global economic activity and global financial markets. The member saw that, with the real economy including growth and prices worsening more severely compared to the February forecast, the domestic financial and foreign exchange markets had been seriously affected due to heightened volatility in the international financial markets.

The member expressed the opinion that a relatively significant cut in the Base Rate was unavoidable to respond to downside risks to the real economy and to ease volatility in the financial markets. The member declared that the most important responsibility for financial stability under the current conditions was stability in the financial markets. The member, however, emphasized that monitoring of the real estate market and the household debt issue should also continue in the future as well.

The member saw that, taking all those points into consideration, it was desirable to revise the Base Rate downward from the current 1.25% to 0.75% at this meeting. The member added that measures deemed necessary for financial market stability should continue to be actively reviewed.

Ⅲ. Results of Deliberation on Monetary Policy Directions

Incorporating the outcome of their earlier discussions, the following Monetary Policy Decision statement was compiled reflecting the views of the majority.

However, Dr. Lim, Jiwon expressed clear opposition to lowering the Base Rate by 0.50 percentage points and argued for cutting it by 0.25 percentage points.

Monetary Policy Decision

☐ The Monetary Policy Board of the Bank of Korea decided today to lower the Base Rate by 50 basis points, from 1.25% to 0.75%, effective March 17, 2020.

☐ Since the last Monetary Policy Board meeting, concerns about global economic slowdown have deepened with COVID-19 spreading globally. The spread of the outbreak has also resulted in a significant increase in the volatility of major price variables, including stock prices and exchange rates, in domestic and global financial markets and a sharp fall in international oil prices. The Board, therefore, judged that further monetary policy accommodation is called for in order to ease volatility in the financial markets and reduce the effects on future economic growth and inflation.

☐ Considering the high level of uncertainties regarding financial and economic conditions at home and abroad, the Board will maintain its accommodative monetary policy stance going forward so as to reduce the downside risks to the real economy and ease volatility in the financial markets.