



BANK OF KOREA

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**PRESS RELEASE**

*FOR IMMEDIATE RELEASE*

March 16, 2020

**Bank of Korea announces 50bp Base Rate cut and measures to stabilize economic and financial conditions**

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.

In a related set of actions, the Board has decided to lower the interest rate on the Bank Intermediated Lending Support Facility from 0.50-0.75% to 0.25%, effective March 17, 2020.

To manage liquidity in the financial market at a sufficient level, the Board will also broaden the eligible collateral for open market operations to include debentures issued by banking institutions.

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This press release is the English version of the Bank of Korea's policy statement. In the case of any inconsistency, the original version in Korean will prevail.

## **1. 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.

## **2. Interest Rate Cut for Bank Intermediated Lending Support Facility**

In addition to lowering the Base Rate by 50 basis points, the Monetary Policy Board also lowered the interest rate on the Bank Intermediated Lending Support Facility.

The decision is expected to strengthen the incentives for banks to lend to SMEs, alleviating the interest burden of SMEs and improving their financial conditions.

In particular, this interest rate cut (0.75% → 0.25%, 50bp) on the support programs for regional SMEs and SMEs affected by COVID-19 is anticipated to reinforce financial assistance to business owners and regional SMEs.

### **Bank Intermediated Lending Support Facility Interest Rates**

Program	Before Adjustment	After Adjustment
<ul style="list-style-type: none"><li>▪ Support Program for Trade Financing</li><li>▪ Support Program for New Growth Engine Development and Job Creation</li><li>▪ Support Program for Small-scale Business Owners (Abolished)</li></ul>	0.50%	0.25%
<ul style="list-style-type: none"><li>▪ Support Program for Regional Enterprises</li><li>▪ Support Program in response to COVID-19</li><li>▪ Support Program for Facilities Investment (Abolished)</li></ul>	0.75%	

### **3. Broadening of Eligible Collateral for Open Market Operations**

The Board decided today to broaden the eligible collateral for open market operations to include bank financial debentures that are not credit risk-free, as follows:

Debentures issued by banking institutions established by the Bank Act, Korea Development Bank, Industrial Bank of Korea, the National Agricultural Cooperative Federation and Nonghyup Bank, the National Federation of Fisheries Cooperatives and Suhyup Bank, and Export-Import Bank of Korea.

However, the newly eligible collateral is limited to collateral for RP transactions between the Bank of Korea and its counterparties, and excludes self-issued bonds and bonds issued by related companies.

For risk management purposes, the Bank of Korea will set the margin ratios on debt securities whose credit risk is higher than those of government bonds, government guaranteed bonds, and monetary stabilization bonds.

Today's measures are expected to have the following effects on the financial markets:

They will contribute to the improvement of the short-term financial market by expanding the availability of bank debentures additionally included as eligible collateral of financial institutions.

They will improve the issuing conditions for bank debentures and enhance their use by firms and other institutional investors as a means of financing and investment.

These measures will be effective on April 1, 2020, and the securities that have been made additionally eligible as collateral will be valid for one year from the effective date.