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EMERGENCY MEETING ON MACROECONOMIC AND FINANCIAL STABILITY

GOVERNMENT, BOK AND FINANCIAL REGULATORS DISCUSS RECENT ECONOMIC SITUATION AND FUTURE POLICY DIRECTIONS

Deputy Prime Minister Choo Kyung-ho presided over the Emergency Meeting on Macroeconomic and Financial Stability with BOK, FSC, and FSS¹ on June 16 to review the financial market situation following the June 2022 FOMC meeting overnight and discuss policy actions to address the recent economic and financial challenges.

The following is a summary of the meeting.

Financial market situation following the June 2022 FOMC meeting

The US Fed's big-step rate hike is further weighing on the global economy, which in turn the multi-faceted economic challenges will linger longer than expected.

- The US Federal Reserve increased its key interest rate by 75bp (0.75-1.0% → 1.5-1.75%) in the early morning of June 16 local time in Korea and projected further key interest rate increase at the end of this year²
- Fed Chairman Jerome Powell mentioned the need for a fast rate hike to control inflation and projected the July FOMC meeting to see an increase of 50 or 75bp
- The US financial market braced for the rate hike, showing increases in the US stock market, declines in market interest rates and drops in the US dollar as the expectations for the rate hike were priced-in by the market
- With the possibility of growing fluctuation in the global financial market driven by concerns about an economic slowdown, the government, BOK, and financial regulators agreed on the need to be vigilant at all times by closely monitoring the impact of the Fed's rate hikes on the FX rate, foreign capital flows, Korea's interest rates, and making prompt policy actions.

Three Policy Directions

To address such multi-faceted economic challenges, the government and BOK drew up three policy directions: price stabilization, market volatility management, and financial risk management

- (Price Stabilization) Mitigate inflationary pressure with various measures including reducing the cost burden on suppliers and anchoring inflation expectation, along with monetary policies that focus on price stabilization

¹ The meeting was joined by Bank of Korea Governor, Vice Chairman of the Financial Services Commission of Financial Services Commissions (FSC), and Financial Supervisory Service (FSS) Governor.

² A 2022 projection change for the key rate in the Fed's dot plot chart: 1.75-2.0% (March projection)→3.25-3.5% (June projection)

- (Market Volatility Management) Take prompt policy actions when herding occurs in the market to deal with market volatility. The government will guard against excessive fluctuation in the FX market to prevent herding as well as take relevant policy measures such as the government's emergency buyback plans and BOK's purchase of Korea Treasury Bonds when the bond market overly fluctuates.
- (Financial Risk Management) Closely work with related institutions to manage potential risk factors and thoroughly check financial companies' liquidity and soundness as well as weak ties in the financial market.