Minutes of the Monetary Policy Board Meeting

May 2024

Bank of Korea

English version

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Ⅰ. Outline

1. Date of meeting: Thursday, May 23, 2024

2. Place: Monetary Policy Board Meeting Room

3. Monetary Policy Board members present:
   Rhee, Chang Yong, Chairman (Governor)
   Shin, Sung Hwan
   Chang, Yongsung
   Ryoo, Sangdai (Senior Deputy Governor)
   Hwang, Kunil
   Kim, Jong Hwa
   Lee, Soo Hyung

4. Monetary Policy Board members absent: none

5. Participants:
   Kang, Sungjun, Auditor
   Lee, Sang Hyeong, Deputy Governor
   Lee, Jongryeol, Deputy Governor
   Kim, Woong, Deputy Governor
   Chae, Byung Deuk, Deputy Governor
   Kwon, Min Soo, Deputy Governor
   Lee, Jae Won, Director General, Economic Research Institute
   Lee, Jiho, Director General, Research Department
   Chang, Cheong Soo, Director General, Financial Stability Department
   Choi, Chang Ho, Director General, Monetary Policy Department
   Park, Jongwoo, Director General, Financial Markets Department
   Oh, Kum Hwa, Director General, International Department
   Baek, Mooyeol, Director General, Office of Legal Affairs
   Choi, Yong Hoon, Director General, Monetary Policy Board Secretariat
   Kim, Yong Sik, Press Officer
   Hur, Hyun, Head, MPB Administrative Support Team

1) This English version is an excerpt of the Monetary Policy Board members' opinions on the Bank of Korea's Base Rate decision, taken from the minutes of the Monetary Policy Board Meeting.

Ⅱ. Discussions Concerning the Monetary Policy Decision

At the May 23, 2024, Monetary Policy Board meeting, each member expressed their opinion on the Bank of Korea’s Base Rate decision.

All members shared the opinion that, in overall consideration of the domestic and international financial and economic environments, it would be desirable to leave the Base Rate unchanged at the current 3.50% level for the intermeeting period.

One member expressed the view that it would be appropriate to leave the Base Rate unchanged at the current 3.50% for the intermeeting period.

The member commented that the global economy was exhibiting favorable movements, while different countries were likely to adopt diverging monetary policies as their economic conditions were varying. In the U.S., labor market imbalances have been easing, with the number of persons employed in the non-agricultural sector growing at a slower pace and the unemployment rate rising, while pressure on service prices appears to have been weakening somewhat, as evidenced by the continuing decline in the ISM services index. However, there is only a slight likelihood that the U.S. Federal Reserve will pivot to interest rate cuts in the near future, as March PCE inflation has rebounded and as core inflation has been decelerating far more slowly than expected. In the euro area, the ECB is likely to pivot toward rate cuts in the near future, as core inflation has been falling gradually despite being higher than the target level and as the real economy there has been growing only weakly. The Chinese economy has been showing limited improvement due to some constraints, including the continued sluggishness of the real estate market. In Japan, economic growth has slowed again, making it more difficult to normalize monetary policy, which has increased uncertainty about future yen-dollar exchange rate movements. International oil prices have fallen after a significant rise, in-line with developments of the Israel-Iran conflict, but with the recent weakening of OPEC+ solidarity, along with the increase in U.S. crude oil production and the possibility of further production, a spike in oil prices seems unlikely unless a significant unexpected geopolitical event occurs.

Regarding the domestic economy, the member saw that GDP showed favorable growth in the first quarter, with exports remaining strong and with private consumption growth far exceeding the original forecast, and that the real economy exhibited stronger-than-expected growth, with the number of persons employed in April rebounding to 260,000. However, further monitoring is required to determine whether such buoyancy of domestic demand, including private consumption, will continue. Meanwhile, risk from the easing of monetary tightening has been decreasing, given that consumer price inflation has returned to the 2% range, that core price inflation remains on a downward trend, and that the possibility of a spike in oil prices is low. A key condition for easing monetary policy is whether consumer price inflation aligns with the projected path, alongside the underlying downward trend in core inflation.

The member commented that overall liquidity conditions appeared to be very favorable in the domestic financial market, as long-term Treasury yields fluctuated, affected by U.S. long-term Treasury bonds, while short-term interest rates remained low and the M2 monetary growth rate rose. However, given the steady growth in the loan delinquency rate at non-bank financial institutions and growing uncertainty surrounding future project financing restructuring, it is important to stay wary of possible financial market unrest caused by sustained monetary tightening. Meanwhile, household debt growth accelerated in April, as apartment sale prices rebounded in some areas and housing transactions increased. Household debt appears to be within a controllable range at the moment, but attention should be paid to prevent household debt growth from accelerating further. Even after several years of a steep rise in the corporate debt-to-GDP ratio, bank lending to the corporate sector continues to increase significantly, and, in this regard, close attention should be paid to risk management to ensure that corporate debt growth does not lead to a rise in the delinquency rate.

With regard to the domestic foreign exchange market, the member noted that won-dollar exchange rate volatility increased in April, affected largely by the strong U.S. dollar, geopolitical risks, and the weak Japanese yen. However, the won-dollar exchange rate is unlikely to experience sudden fluctuations, as the U.S. dollar remains strong amid ample global dollar liquidity. In this regard, rather than focusing on temporary won-dollar exchange rate movements, it is better to seek ways to reduce the impact that dollar demand from residents' outward investments has on the exchange rate.

Given these domestic and external economic and financial conditions, the member found it appropriate to maintain the Base Rate at the current level of 3.5% at this time. Considering that monetary policy effects take some time to manifest, the inflation aspect requirements for easing monetary tightening appear to be gradually being fulfilled. However, it is difficult to rule out the possibility of stronger upward pressures on inflation if the real economy continues to be more favorable than expected, and therefore it is desirable to further monitor economic developments before deciding whether to ease monetary tightening.

Another member expressed the view that it was appropriate to leave the Base Rate unchanged at this meeting at 3.50%.

The member saw that the global economy had sustained moderate growth, led by the recovery in manufacturing, while inflation had slowed. As a result, expectations of a soft landing for the global economy have heightened, while major central banks including the U.S. Federal Reserve are expected to begin easing their contractionary monetary policy stance at some point this year.

The member observed that the domestic economy continued to improve, with private consumption and exports showing unexpected recovery momentum. Labor market conditions have recorded both quantity and quality gains, not only in terms of the number of employed persons, but also in terms of hours worked and wages. Going forward, this would likely contribute to a moderate increase in the real purchasing power of households.

The member noted that consumer price inflation had decelerated in-line with the forecast, and expected it to reach the target level in the second half of 2025. However, upside risks over the future inflation trajectory have grown, due to increases in oil prices and the exchange rate. Given the increased burden on households stemming from cumulated inflation, inflation expectations could remain elevated.

The member was of the view that, although financial stability conditions remained generally stable, despite increased geopolitical risks and changes in the expectation of the U.S. Fed monetary policy, risk factors still exist. The Korean won to U.S. dollar exchange rate soared to the upper 1,300 won per dollar range, and fell back recently. However, it is necessary to remain vigilant, as changes in monetary policies in major economies could lead to further volatility in the Korean won to U.S. dollar exchange rate.

The member believed that overall liquidity conditions in financial markets seemed generally favorable, given the increase in short-term standby funds, higher monetary growth, and lower credit spreads. Household and corporate lending has been growing at a faster rate, driven by lower lending rates and by the provision of policy funding, but further monitoring is required as to whether this trend continues into the future.

The member presented the opinion that real estate project financing was unlikely to escalate into a systemic risk factor, considering the loss absorption capacity at financial institutions, and that the recently announced restructuring plan should be implemented consistently.

In summary, the member saw that, while the growth trend has improved, risks from external conditions, such as the exchange rate, remain, and upside risks to inflation have increased. In view of this, it is desirable to keep the Base Rate unchanged at this meeting and maintain it at the current level for the time being.

The member also pointed out that, in the future, when to pivot monetary policy should be determined by comprehensively examining the stability of external conditions, such as the exchange rate, the confidence in inflation converging on the target level over the medium-term, and the burdens on economic agents stemming from maintaining the Base Rate at the current level.

Another member presented the view that it would be appropriate to hold the Base Rate steady at the current level of 3.50% for the intermeeting period.

The member noted that, while the global economy entered a soft landing phase, the pace of real economic recovery and inflation were showing differentiated patterns across countries, leading to diverse paths of policy rates. International oil prices and foreign exchange markets, which had been highly volatile, have recently calmed down.

On the domestic economy, the member saw that exports, led by semiconductors, had recovered strongly and were driving growth. Domestic and international organizations are revising upward their economic growth forecasts for this year on the back of better-than-expected consumption growth in the first quarter. However, it remains to be seen whether consumption growth from the previous quarter will continue and if strong exports will lead to an increase in domestic demand.

The member took the view that, while core inflation continued its modest slowdown, headline inflation had experienced a series of temporary rebounds, indicating that it would take considerable time to reach the 2% target. Meanwhile, upward pressures on inflation remain as the real economy is expected to show stronger growth than initially expected. However, as inflation slows, the previously stagnant real wages will shift to growth, leading to an increase in households' real purchasing power, which could positively impact future consumption.

The member assessed that, while there was concern about rising delinquency rates among vulnerable borrowers due to prolonged high interest rates, the possibility of this escalating into a systemic risk was minimal. It is estimated that the household debt-to-GDP ratio will fall below 100%, achieving the short-term target, driven by efforts to reduce household debt. It is time to improve economic fundamentals by carrying out the deferred orderly restructuring of the real estate project financing sector and continuing deleveraging efforts, thus laying the foundation for sustained growth going forward.

As the real economy showed better-than-expected performance, nearing its potential growth rate, the member believed that it would be desirable to maintain the tightening stance by keeping the Base Rate at the current level of 3.5% until there was confidence that inflation would anchor at the target level.

Another member presented the view that it would be appropriate to hold the Base Rate unchanged at the current 3.50% for the intermeeting period.

The member projected that although the global economy showed stronger-than-expected growth despite the impact of global monetary tightening, growth was likely to diverge across major economies. Inflation in major advanced economies has continued to slow, but the expected timing of inflation converging on the target varies across countries.

The member expected the domestic economy to show solid growth, as the recovery momentum of exports strengthens and as the slump in domestic demand, including consumption, becomes better than initially anticipated. Private consumption in the first quarter improved better than initially forecast, due to some temporary factors, and is likely to recover moderately after a period of adjustment. Exports are expected to sustain their solid growth, backed by the recovery in the IT sector and the acceleration of U.S. growth. Construction investment, which rebounded significantly in the first quarter, is forecast to weaken, while facilities investment is likely to improve driven mainly by the IT sector recovery. Labor market conditions are favorable in general, with the continuation of firm growth in the number of employed persons. The real estate market has seen the volume of transactions increase and sale prices rise slightly, mainly in Seoul. However, uncertainties are too large to regard these developments as signs of shifting to an uptrend. Domestic inflation is likely to remain subdued owing to a modest recovery in consumption, despite greater upward pressure from the upward revision of forecasts of growth, oil prices, and exchange rates. There are large uncertainties over the inflation trajectory concerning agricultural prices, international oil prices, and the exchange rate movement.

In financial and foreign exchange markets, the member observed that major price variables had fluctuated, affected chiefly by changes in expectations of monetary policy in major economies. Household lending shifted to an increase mainly in housing-related loans, while corporate lending sustained a high growth rate, mainly in bank loans. The Korean won to U.S. dollar exchange rate has been volatile, with a significant increase followed by a decrease due to changing expectations of the timing of the Fed's rate cuts and due to events in the Middle East. The foreign currency money market has remained stable, but exchange rate risks remain concerning the shift in the Fed's monetary policy. Therefore, a close monitoring of relevant developments is essential.

In overall consideration of the above-mentioned economic and financial conditions, the member expected that the growth rate would be higher than initially forecast, and that inflation would continue to decelerate. However, given the high domestic and overseas uncertainties over the inflation path, further observation of future developments is needed to be confident about inflation returning to the target. Thus, it would be desirable to keep the Base Rate at the current 3.5% and to maintain the current contractionary stance for the intermeeting period.

The member stated that monetary policy decisions should be made by closely monitoring the price and growth path and by examining domestic and overseas policy environments, including financial stability and geopolitical risk developments, household debt trends, and changes in monetary policy in major economies.

Another member expressed the view that it would be appropriate to leave the Base Rate unchanged at this meeting and to maintain it at 3.50%.

The member commented that the global economy was showing more favorable movements than expected and that global trade was showing signs of recovery. Despite uncertainties surrounding the growth path caused by trade conflicts among major countries and geopolitical risks, the global economy is expected to maintain modest growth. Disinflation in major countries has been continuing slowly due chiefly to a persistently high increase in service charges and a rebound in energy prices. International oil prices rose in early April following the Israel-Iran conflict, and then have fallen back, while high uncertainties remain owing to geopolitical risks.

Regarding international financial markets, the member noted that concerns about a delay in the U.S. Federal Reserve's rate cut had been growing steadily and then eased in May, and went on to state that major price variables had fluctuated accordingly. Long-term Treasury bond yields in major countries shifted to a decrease in May after having continued to rise in April.

The member saw that the rate of domestic economic growth in the first quarter was well above the previous forecast, boosted by significant improvements in net exports and stronger-than-expected improvements in consumption and construction investment. Going forward, the domestic economy will likely experience uncertainties related to developments in the IT industry and monetary policies in major countries, but the growth rate for this year is forecast to be much higher than originally projected, led by persistently strong exports and a modest consumption recovery.

The member assessed that domestic inflation continued to slow. Core inflation and consumer price inflation have declined in-line with the deceleration of the upward trend in personal services inflation and agricultural product prices. Looking ahead, domestic inflation will likely continue to slow gradually, but uncertainties related to movements in oil prices, the exchange rate, and agricultural product prices, as well as the extent of the spread of price increases across companies, remain on the future path of inflation. Improvement in the growth rate, in particular, is a factor adding to demand side inflation pressures, and, in this regard, its impact on disinflation needs to be closely monitored.

As for domestic financial markets, the member observed that Treasury bond yields had risen and then fallen back in-line with changes in expectations for the U.S. Federal Reserve’s policy stance, and that the Korean won to U.S. dollar exchange rate had spiked before significantly dropping in May. Household loans in the financial sector, which had been decreasing, shifted to positive growth in April, mainly driven by home mortgages. With the slight improvement in home buyer sentiment and the decline in interest rates on bank loans, the trend of household loans warrants continued monitoring. Meanwhile, progress on restructuring troubled real estate project financing businesses under government measures, changes in the business conditions in the construction and real estate industries, and the soundness of non-banks and their capital flows, all need to be carefully monitored.

In summary, the member projected that the domestic economy would sustain its growth recovery, while inflation would continue to decelerate. However, domestic and overseas uncertainties over the inflation path are likely to pose a risk to the downward stabilization of inflation.

Given the overall circumstances mentioned above, the member believed that it was appropriate to keep the Base Rate at the current 3.50% at this meeting. After experiencing high levels of inflation, anchoring inflation expectations is more important than ever. Considering how unclear the impact of changes in domestic and overseas policy environments on disinflation is, monetary policy operations require a careful approach with a close monitoring of inflation developments.

Another member expressed the view that it would be appropriate to leave the Base Rate unchanged at this meeting and to maintain it at 3.50%.

The member commented that, concerning the global economy, global growth forecasts had been revised upward since the start of the year thanks to growing expectations of a soft landing, but since April growth had been somewhat constrained by slower progress in disinflation in major economies, which had dampened expectations of rate cuts, as well as by instability in the

Middle East. However, the underlying growth momentum is expected to continue, influenced by a still strong U.S. economy, a gradual economic recovery in Europe, and diminishing concerns of a hard landing in China.

The member stated that the domestic economy in the first quarter showed growth that significantly exceeded expectations, driven by a strong recovery in exports from the IT sector, including semiconductors, and an increase in consumption due to temporary factors.

The member expected the economy to experience a significant correction in the second quarter, as the temporary factors dissipated and in consideration of a slower recovery in industrial production, and then to demonstrate a moderate growth trend from the second half of the year. However, in contrast to the rapidly growing export sector, the prolonged high interest rate environment and the weakened spillover effects of exports onto domestic demand since the pandemic have intensified the imbalance with the domestic demand sector, which has not yet reached its normal trajectory. This imbalance remains a major consideration when setting policy directions.

The member commented that inflation was expected to continue its moderate slowdown, mainly driven by core inflation, despite upside risks from supply-side pressures, including geopolitical risks and high exchange rates, along with the upward revision of the growth forecast to be above the potential growth rate.

The member took the view that, while the exchange rate remained at a high level, changes in external conditions, including U.S. economic indicators, and the widening divergence of monetary policies across countries, would likely increase volatility, despite favorable domestic foreign exchange liquidity and foreign currency financing conditions.

The member noted that financial stability indicators were positive, with government bond yields and lending rates falling and with money markets generally being assessed as stable. However, it is worth noting that delinquency rates are rising among households and SMEs, and there has been a recent rebound in household loans, as well as a steady increase in corporate loans.

The member saw the need to eliminate potential and psychological financial system instability factors by accelerating the implementation of the announced real estate project financing soft landing measures, while complementing and managing liquidity and credit risks that may arise during the restructuring process.

The member believed that, given the current domestic and international economic conditions, it would be appropriate to maintain the Base Rate at 3.5% at this meeting. Going forward, the path of the Base Rate should be determined by considering changes in external variables, such as the direction of monetary policy decisions in the U.S. and other major countries, inflation trends, and the restoration of the balance between the domestic demand and export sectors.