Minutes of the Monetary Policy Board Meeting

February 2024

Bank of Korea

English version

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February 2024

Ⅰ. Outline

1. Date of meeting: Thursday, February 22, 2024

2. Place: Monetary Policy Board Meeting Room

3. Monetary Policy Board members present:
   Rhee, Chang Yong, Chairman (Governor)
   Cho, Yoon-Je
   Suh, Young Kyung
   Shin, Sung Hwan
   Chang, Yongsung
   Ryoo, Sangdai (Senior Deputy Governor)
   Hwang, Kunil

4. Monetary Policy Board members absent: none

5. Participants:
   Kang, Sungjun, Auditor
   Min, Jwa Hong, Deputy Governor
   Lee, Sang Hyeong, Deputy Governor
   Lee, Jongryeol, Deputy Governor
   Kim, Woong, Deputy Governor
   Chae, Byung Deuk, 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
   Kwon, Min Soo, Director General, Reserves Management Group
   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 Monetary Policy Decision

At the February 22, 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 presented the view that it would be appropriate to keep the Base Rate at its current level of 3.50% for the intermeeting period.

The member commented on the global economy, saying that, despite the continuing services-driven recovery in demand, inflation had slowed due to weaker goods demand, a result of high interest rates and stabilized energy prices. The member pointed out that there were both upside and downside pressures in the U.S., with upside pressures being the continued fiscal expansion, inflows of direct and indirect investment, and the increase in productivity, and the downside pressures being the exhaustion of excess savings, slowed investment related to industrial policy, and the drop in the labor market vacancy rate. The member, however, saw that the dominant projection for the U.S. economy was that it would grow at more than 2% this year. The member added that despite the decline in goods prices, supercore inflation and housing services inflation had remained elevated, pushing back the expected timing of the U.S. Federal Reserve’s pivot to beyond the mid-year. The member expected that growth would remain uneven across countries, with slowing growth in Europe and China due to high interest rates and a real estate slump, respectively, and solid growth in Japan and Asian emerging economies.

The member assessed that Korea’s recovery had been sustained since the second half of 2023. The member observed that exports and facilities investment had continued to improve driven by the semiconductor sector, while the recovery in private consumption had weakened and construction investment had shifted to a decline. The member thought that private consumption growth would be unlikely to show any meaningful increase going forward, given the large debt repayment burden and a weakening of babyboomers’ propensity to consume following their retirement. The member analyzed that this weak domestic demand was a key driver of disinflation in Korea, as it makes it difficult to pass on accumulated cost pressures to the second round, even in the face of supply shocks, such as the surge in agricultural prices since the second half of last year.

Regarding foreign exchange markets, the member observed that, despite the strong dollar, the Korean won had recorded a smaller depreciation than currencies of other major trading partners, driven by the expected increase in current account surplus and by a rise in foreign investment funds, and that FX liquidity conditions had remained sound. About financial markets, the member commented that despite the rise in market interest rates driven by weakened expectations for the U.S. Fed's early rate cuts, market sentiments had generally remained stable, but that the potential risk associated with real estate project financing was still high, with home mortgage loans and corporate loans continuing to soar.

In summary, the member mentioned that exports and facilities investment were the main drivers of growth with favorable external conditions, while private consumption was sluggish, and inflation continued to slow moderately. Considering the inflation outlook, the member expected that the real Base Rate would exceed the neutral rate of interest after the second quarter, constraining private consumption even further. The member believed, however, that it was too early to discuss a pivot, given that inflation expectations were still high at 3%, that consumer price inflation was expected to hover above the target level for a considerable time, and that the upside risk from supply still existed. The member added that caution must be taken against a premature expectation for a pivot, as it can stimulate home buyer sentiment, which had weakened since the fourth quarter of 2023, and push up private debt further. The member viewed, however, that a pivot could begin when it is sufficiently clear that inflation is converging toward the target level along the projected path. In this case, the member argued that coordination with macroprudential policy should be carried out first to contain any debt growth.

Another member noted that it would be appropriate to maintain the Base Rate at the current level of 3.50% for this meeting.

The member noted that consumer prices were likely to experience temporary volatility as sluggish domestic demand is expected to continue for some time, but in the absence of unforseen external shocks on the supply side, they appeared to have entered a phase of secular moderation. However, the member argued that the downward trend would likely see resistance as it approaches the target, given uncertainties such as high agricultural product prices and instability in oil prices stemming from geopolitical risks. The member commented that, despite the overall slowdown in inflation, it is still above the target, and it appears that it will take some time for the gap between headline inflation and perceived inflation among individuals to narrow due to the already elevated level of prices.

The member noted that the global economy had been supported by domestic demand, and mainly consumption, as trade had contracted significantly due to the intensified bloc formation and the fragmentation of the global economy since the pandemic, and it could be said that there had been a divergence in growth among countries based on the size of their domestic demand. The member commented that, currently, the growth rate was still below the long-term average, as the high interest rate situation had been persisting longer than expected, but it was expected to improve moderately in the second half of the year thanks to improved financial conditions and the resumption of global investment and trade.

The member predicted that, going forward, regional and national economic performances would diverge depending on how swiftly and effectively each country’s economic policy responds to the easing of global tightening and improving trade conditions, on their ability to coordinate internationally, and on the resilience of employment.

Meanwhile, the member saw that, in the domestic economy, the recovery in consumption was not meeting expectations and that growth was constrained by weak construction investment. However, the member expected growth to gradually moderate as consumer sentiment had increased slightly of late, and as the export sector offset weaker domestic demand, supported by improving global trade conditions. The member pointed out that, as the government's sound fiscal stance continued, the role and direction of monetary policy would be critical. The member noted that financial markets were seeing increased caution toward real estate project financing, particularly among non-bank financial institutions. However, the member believed that the potential for any spillover into financial system risks would likely be limited due to policy authorities' multifaceted responses, such as workouts, as well as to substantial loan loss provisions.

The member pointed out that high household loans weigh greatly on the economy. Although its growth had been slow recently, the member believed that the level was too high, and thus would be a key factor along with housing prices in determining the timing of a pivot. The member added that growing uncertainties over the outcome of the U.S. presidential election in the second half of this year would likely increase volatility in financial and foreign exchange markets. In the member’s view, Korea’s high reliance on foreign trade makes it sensitive to changes in trade conditions and exchange rates caused by policy shifts in major countries, and thus appropriate measures should be taken in advance.

In consideration of the above-mentioned economic and financial conditions at home and abroad, the member assessed that the Base Rate should be maintained at the current level of 3.50% for the intermeeting period. The member added that future responses should be made based on monitoring of changes in the external economic environment, such as monetary policy decisions in major countries, including the U.S., and geopolitical risks, as well as internal factors including the extent of vulnerability amid the high interest rate environment, the stability of the slowing trend of inflation, and developments among household loans.

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 observed that global economic growth had fallen short of its long-term average, affected by global monetary tightening, but that growth had been uneven across countries. The member noted the view that, in the U.S., the pivot could come later than expected by the market, given the U.S.’s continuously solid labor market and strong growth.

The member expected that the domestic economy would grow at around 2.1% due to strong semicondutor exports, but that domestic demand, including private consumption and construction investment, is weak. The member noted that consumer price inflation, which had rebounded to 3.4% in the fourth quarter of 2023, fell back to 2.8% in January this year driven by a weakening in demand pressures and a decline in oil prices. The member projected, however, that it would take considerable time before inflation returns to the target level of 2%, given that a narrowly defined cost-of-living index(made of 140 items), closely related to people's livelihood, remained at 3.4%.

The member assessed that prolonged high interest rates had accumulated the pressure on vulnerable sectors of the economy. The member believed that although high interest rates weighed on household consumption, the first priority was to stabilize inflation. The member noted that households' real purchase power did not improve last year, as the rate of increase in total wage bill was offset by consumer price inflation, which apparently weighed on consumption. The member believed, therefore, that stabilizing prices would help to improve households' real purchasing power.

Concerning financial markets, the member saw that the market unrest caused by Taeyoung E&C's application for a debt workout plan had eased to some degree. The member observed, however, that delinquency rates among real estate-related SMEs were rising, with corporate borrowing in the real estate sector increasing significantly. The member went on to state that the slump in construction investment would continue for a considerable time, with the impact of the drop in new construction being now in full swing, and that the risk associated with real estate project financing was unlikely to be resolved in a short period of time. The member added that this could potentially increase market strains at any time.

The member offered the view that the Base Rate should be kept unchanged at the current rate of 3.50%, and that any negative side effects from high interest rates should be responded to appropriately with micro-measures. The member added that a close monitoring of financial and economic developments is needed to manage the real estate project financing risk and its consequent strains at non-bank financial institutions so that problems in small and medium-sized savings banks do not develope into a systemic risk.

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

The member forecast that, due to the growing likelihood of an overall easing of monetary tightening in-line with the slowdown in inflation, the global economy would move away from high interest rates and high inflation and show a gradual improvement. The member projected that global trade had been recovering slowly and that it would expand gradually, depending on improvements in the global economy. By country, the member mentioned that, in the U.S., labor market-related indicators had been stronger than expected and inflation had been decelerating at a slower-than-expected pace, with consumer price inflation rebounding slightly and core inflation remaining unchanged. The member, however, stated that since economic indicators were exhibiting mixed signals, such as the more sluggish-than-expected consumption-related indicators in January, future developments of related indicators should be continuously monitored. The member predicted that China had been experiencing sustained deflation caused by sluggish demand and that the growth rate there would be slightly below 5% this year. The member, meanwhile, forecast that as global financial market conditions were expected to remain accommodative with a diminishing likelihood of the U.S. Federal Reserve further tightening, countries would likely show increasingly diverging policy stances from now on depending on their own economic conditions. The member added that some emerging market countries had already started lowering rates in consideration of their domestic economic conditions, such as the pace of inflation slowdown.

Regarding the domestic economy, the member noted that private consumption and construction investment had been more lackluster than expected, while exports had been stronger than initially projected. The member added that this resulted in an economic growth trend consistent with the original forecast, but that each sector of the economy exhibited differing trends. The member commented that the labor market had been sustaining a gradual deceleration in its underlying trend, if the unemployment rate, which had risen due to temporary factors, is counted out. The member projected that the growth rate would continue to improve, driven by exports, while private consumption would continue to exhibit a slower recovery than initially forecast.

Concerning inflation, the member assessed that inflation continued to slow as originally projected and that demand-side pressures on inflation had weakened somewhat due to slower-than-expected private consumption. The member argued that, in this regard, the core inflation forecast path, which heavily relies on private consumption, could be adjusted slightly downward. The member however pointed out that upside risks to inflation still remained, including the pace at which the accumulated supply shocks affect inflation, as well as geopolitical risks.

Meanwhile, the member mentioned that, since the January MPB meeting, global market expectations regarding the timing of the U.S. Federal Reserve's rate cut had been adjusted following the release of U.S. employment and inflation indicators, which had surpassed market forecasts, and added that, as a result, long-term interest rates in major countries had risen and the U.S. dollar had strengthened. The member went on to state that domestic long-term government bond yields have risen as well, affected by the rise in U.S. long-term interest rates, and financial conditions have tightened somewhat. However, the member argued that, as overall liquidity conditions in financial markets were favorable, with short-term interest rates remaining stable, concerns about any spread of real estate project financing defaults have eased somewhat, but that related risks still remained, and that delinquency rates at banks and non-bank financial institutions have continued to rise, leading to a steady increase in the risk of sustained monetary tightening. The member expressed the opinion that it would be necessary to prepare against the possibility of problems in vulnerable sectors leading to instability across the entire financial market. The member noted that domestic FX markets remained stable thanks to favorable global financial conditions. The member mentioned that, as major currencies depreciated due to the global strength of the dollar, the won-dollar exchange rate had risen accordingly, but that the extent of increase was limited relative to other currencies. The member also assessed that the domestic FX swap market had remained stable, with incentives for arbitrage trading decreasing and CDS premiums remaining low.

Taking the domestic and international economic and financial environment into overall consideration, the member judged that it would be appropriate to keep the Base Rate unchanged at the current 3.50% at this meeting. The member assessed that the risk from the easing of tightening had been reduced somewhat as inflationary pressures had weakened slightly due mainly to sluggish domestic demand. The member thus found it desirable to determine the appropriate timing of any easing after monitoring future developments in inflation and economic conditions, as well as domestic and international financial market conditions.

Another 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 forecast that the global economy would continue to slow for the time being due to global monetary tightening, but that it would start to improve gradually in the second half of the year, achieving more favorable growth than originally expected. The member stated that inflation continued to moderate in its underlying trend in the U.S. and other major advanced countries, but that the pace of the slowdown had been more modest than initially forecast.

The member projected that the domestic economy would likely continue to show gradual improvement, led by exports. The member expected that, although private consumption had been recovering slowly, it would likely maintain a modest upward trajectory going forward, depending on future improvements in real household incomes. The member also anticipated that export growth would accelerate, boosted by a sustained recovery in the global IT industry and by persistent strong demand for imports in the U.S. The member forecast that facilities investment would emerge from its sluggishness and exhibit favorable growth led by investment related to semiconductors and related to new industries that are engines of economic growth, but that construction investment would likely remain more sluggish than previously expected. The member saw that employment was favorable overall, driven by persistent solid growth in the number of persons employed. As for domestic inflation, the member noted that the consumer price inflation rate had declined due mainly to slower growth in personal services and processed food prices, and that core inflation had also continued to decelerate. Going forward, the member expected domestic inflation to continue experiencing an underlying slowdown, but at a moderate pace due to the effects of rises in global oil and agricultural product prices.

The member pointed out that financial and foreign exchange markets had been generally accommodative and operating smoothly, although major price variables had fluctuated substantially due mainly to changes in expectations of the U.S. Federal Reserve’s early rate cut. The member stated that government bond yields had recently risen sharply, influenced by weakening expectations of the U.S. Federal Reserve’s early rate cut, while short-term market rates fell and stock prices rebounded significantly. The member commented that delinquency rates on corporate loans had continued to rise led by loans to SMEs, while corporate financing had been proceeding smoothly overall. They went on to state that risks related to real estate project financing persisted, but that they were not significant enough to threaten financial system stability. The member presented the opinion that household loans exhibited slower growth owing to a decline in other loans, while housing-related loans sustained strong growth.

The member expressed the view that, in consideration of the above-mentioned conditions, it would be appropriate to keep the Base Rate unchanged at 3.5% at this meeting. The member stated that while inflation was expected to continue its underlying slowdown, it remained above the target level and that there was substantial uncertainty surrounding the future inflation path. The member went on to argue that, on the other hand, the economy demonstrated a modest recovery and forecasts indicated continued growth for this year and the next, potentially reaching or even surpassing its potential level, which suggested that there was no significant pressure to implement an early rate cut given the current situation. The member pointed to the need to keep the Base Rate unchanged from the current level for some time and monitor the inflation path and movements of many related indicators until the Board was confident that inflation would stabilize at the target level.

The member took the view that, going forward, it would be necesesary to make monetary policy decisions with a top priority placed on achieving price stability, while taking into account domestic and international economic conditions, changes in monetary policies in major countries, movements of the exchange rate, and risks to financial stability.

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

The member saw that the global economy showed growth exceeding initial expectations, led by the U.S., and that it was expected to exhibit growth more favorable than initially expected, although growth would slow due mainly to ongoing monetary tightening in major economies.

The member presented the opinion that inflation in the major advanced economies would continue its slowing trend, but that it may still take some time before the Board would be confident of its downward stabilization. The member saw that, since more-favorable-than-expected economic conditions were leading the inflation rate to decline at a slower pace, particularly in the services sector, any convergence on the target could be slower than expected.

The member noted that, in international financial markets, price variables had fluctuated in-line with adjustments in expectations for monetary policies in major advanced economies. The member stated that, with central banks in major advanced economies having indicated that they would maintain their current high policy rate levels for some time, expectations for early rate cuts had weakened as subsequently released economic and inflation-related indicators had exceeded market expectations. The member added that, as a result, policy rate forecasts, as reflected in market price variables, had been revised upward and the U.S. dollar had strengthened.

The member stated that the domestic economy has continued its modest recovery, with exports improving, led by IT, although domestic demand, including consumption and construction investment, remained sluggish. The member noted that growth this year would be broadly in-line with the November forecast, but the divergence in growth between exports and private consumption would likely expand compared with initial expectations.

The member projected that domestic inflation would continue its gradual deceleration. However, the member still saw the possibility of the deceleration slowing due to the great uncertainty surrounding oil prices stemming from ongoing geopolitical risks of late, as well as sustained high agricultural product prices.

The member commented that, in financial markets, long-term interest rates rose due to changes in expectations of the U.S. Federal Reserve's monetary policy and in geopolitical risks, and the Korean won to U.S. dollar exchange rate fluctuated within a limited range. The member stated that stock prices rose on expectations of an improvement in the semiconductor industry despite weakening expectations of an early Fed rate cut.

The member saw that household lending in the financial sector continued to grow at a slower pace overall, but that housing-related lending at banks has maintained a relatively high growth trend.

The member pointed out that, in the credit and securities markets, credit spreads had narrowed considerably, and anxiety in the PF-ABCP market had eased somewhat. However, the member saw that difficulties in the rollover of some non-investment grade CPs persisted.

The member projected that, overall, the economy has continued to recover modestly and that inflation is expected to continue to slow, albeit with uncertainty around oil prices. The member stated that household lending has been growing at a slower pace, but it will be necessary to monitor the still ongoing increase in home mortgage lending.

The member presented the opinion that, in light of these considerations, it would be desirable to keep the Base Rate unchanged at the current level of 3.50% at this meeting. The member argued that, for now, it would be necessary to maintain a sufficient tightening stance so as to ensure that disinflation and deleveraging would be sustained. The member added that, as part of this process, it would be necessary to comprehensively examine domestic and external conditions, including future inflation developments, financial stability conditions, and the impact of monetary policies in major economies.