Minutes of the Monetary Policy Board Meeting

November 2023

Bank of Korea

English version

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November 2023

Ⅰ. Outline

1. Date of meeting: Thursday, November 30, 2023

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
   Park, Chunsup
   Chang, Yongsung
   Ryoo, Sangdai (Senior Deputy Governor)

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
   Choi, Chang Ho, Director General, Research Department
   Kim, Inkoo, Director General, Financial Stability Department
   Hong, Kyung Sik, Director General, Monetary Policy Department
   Park, Jongwoo, Director General, Financial Markets Department
   Oh, Kum Hwa, Director General, International Department
   Kwon, Min Soo, Director General, Reserve Management Group
   Min, Jun Gyu, 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 each Policy Board member's opinion 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 November 30 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 argued that it would be appropritate to leave the Base Rate unchanged at the current 3.50% for the intermeeting period.

Looking at changes in global economic conditions since the October meeting, the member said that the expectations of an early end to the tightening cycle of monetary policy had heightened due to the faster-than-expected slowdown in inflation in major advanced economies. The member added that concerns about the spread of the Irael-Hamas conflict had been somewhat mitigated, leading to falls in global oil prices. However, the member noted that there were still lingering uncertainties in relation to the development of geopolitical risks and the impacts of the U.S. Federal Reserve's prolongation of its monetary tightening stance.

Concerning global financial markets, the member stated that amid reduced geopolitical risks, U.S. Treasury bond yields, which had significantly risen, declined again. The member added that this was attributable to the softened expectations of the U.S. Federal Reserve's further rate hikes and adjustments in the pace of long-term bond issuance by the U.S. Department of the Treasury, and thanks to a weakened U.S. dollar.

Looking at domestic conditions, the member expected economic growth to continue its modest improvement on the back of reviving exports. However, the member assessed that growth for next year was predicted to fall slightly short of the August forecast due to the tentative recovery of consumption and the prolongation of tightening monetary policy at home and abroad. The member commented that the future growth path is surrounded by high uncertainties over the effects of the protracted monetary tightening cycles in major economies, developments in the Israel-Hamas conflict, and the speed of any recovery in the

IT sector.

The member stated that consumer price inflation had somewhat increased stemming from rises in the prices of global oil and agricultural products, and that short-term inflation expectations had also risen slightly. On the other hand, the member noted that core inflation had declined moderately. The member assessed that inflation for this year and next was projected to be higher than the August forecast, but that it will continue with its modest slowdown. However, the member judged that there were high uncertainties regarding supply-related factors on the future inflation trajectory. The member emphasized the need to be mindful of the possibility that cost pressures could expand due to supply shocks, which could lead to inflation remaining elevated, and to a possible delay of inflation convergence on the target level amid the combination of inflation expectations.

The member mentioned that in financial markets, Korean Treasury bond yields, which had risen significantly in October, had declined upon expectations of an end to policy rate hikes by the U.S. Federal Reserve, and that stock prices rebounded. The member stated that household loans by the financial sector had continued to grow, driven by housing-related loans, and that it would be necessary to watch the trend further due to rising lending rates, the decreasing extent of housing price hikes and transaction volumes, and due to the government's reinforced household debt management program. The member judged that, although liquidity risks had been easing, the delinquency rate had kept rising at a high level so that the potential for credit risks to occur was still present.

The member noted that in the foreign exchange market the Korean won to U.S. dollar exchange rate was stable in November. The member viewed that, going forward, the exchange rate would likely fluctuate depending on developments in FX-related factors, such as geopolitical risks, the U.S. Federal Reserve's higher-for-longer stance, and the current account.

In summary, the member assessed that, as core inflation had continued its slowing trend, consumer price inflation was also predicted to decline gradually going forward. The member added that against this backdrop, it would be necessary to further watch the household loan trend. The member also noted that there were still lingering uncertainties regarding global economic conditions and monetary policies. Therefore, the member expressed the view that it would be appropriate to hold the Base Rate steady at the current 3.50% for this meeting.

However, the member stressed that if the pace of convergence on the inflation target was judged to be more delayed than previously expected due to growing supply-side inflationary pressures and inflation expectations, it would be essential to consider additional policy measures.

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.

Looking at the global economy, the member stated that, since the previous Monetary Policy Board (MPB) meeting, the degree of tightening in international financial markets had eased somewhat, with major country government bond yields declining significantly due to expectations of an end to rate hikes by the U.S. Federal Reserve, fueled by the weakening October employment and inflation indicators in the United States. The member saw that, additionally, amid the reduced possibility of an escalation in the Israel-Hamas conflict, geopolitical uncertainties decreased considerably, and economic growth trends differed from country to country. However, the member pointed out that signs of a gradual slowdown in growth had emerged in the U.S. as the effects of the accumulated tightening policy have begun to show, even through the U.S. had been the only major advanced economy exhibiting robust growth based on solid consumption and employment conditions so far. The member judged that, furthermore, with the labor market imbalances gradually easing, inflation would be highly likely to slow gradually going forward. The member saw that, in China, the government's stimulus policy measures had eased the sluggishness, but downside factors, such as a sluggish real estate market and declining exports stemming from weak external demand, continued to restrain the recovery momentum. The member projected that, in the euro area, modest growth would persist for a significant time due to high inflation and interest rates.

The member noted that the domestic economy was exhibiting a gradual recovery trend, as private consumption showed a slight rebound and as exports continued to improve despite subdued global trade conditions. The member expected next year's growth to sustain a trend of gradual improvement, supported by the recovery in exports. However, the member added that downside risks still persisted, such as the possibility of an economic slowdown in major countries, including China, and the potential prolongation of a global tightening policy stance. The member saw that employment conditions had generally been favorable, thanks to the low unemployment rate and the high employment rate. However, the member stated that the increase in the number of persons newly employed was continuing primarily among the elderly and women.

With respect to inflation, the member commented that consumer price inflation showed a level higher than the previous forecast path due to the impact of rising energy and agricultural product prices. The member added that, consequently, the future forecast path had been slightly adjusted upwards. The member analyzed that momentum had been gradually weakening since the latter half of this year, although core inflation had exhibited a slower pace of deceleration due to the spillover effects from accumulated cost pressures. The member saw that future consumer prices might resume a decelerating trend. However, the member also noted that uncertainties regarding the pace of deceleration were significant due to a mix of upside and downside risks, such as domestic and international economic trends and a decline in international oil prices resulting from assuaged geopolitical uncertainties of late.

Concerning financial markets, the member noted that financial conditions had eased somewhat as Treasury bond yields had declined significantly in-line with the decrease in U.S. Treasury bond yields stemming from expectations for an end to the U.S. Federal Reserve’s interest rate hikes. The member stated, however, that there were destabilizing factors caused by high interest rates, such as difficulties in the refinancing of some PF ABCPs and larger spreads between bank debenture rates and the Base Rate, and between CP rates and the Base Rate. Meanwhile, the member argued that there was a growing need to manage macro leverage, since household and corporate loans were continuing to increase despite the high interest rate environment. The member mentioned that household loans had increased, led mainly by government-sponsored mortgage loans, driven by expectations of real estate price hikes. The member presented the view that to manage the risk of household debt, it would be desirable to adhere to the general principle of deciding on a line of credit on the assessment of borrowers’ debt servicing capacities in case of government-sponsored loans, as well. However, the member forecasted that an increasing trend in household loans would slow going forward as downward pressures were more prevalent than upward pressures on housing prices, with the volume of housing up for sale increasing, transactions declining, and transaction prices shifting to a decrease.

The member commented that to manage the risk of corporate debt, it would be necessary to examine the policy financing framework, and to manage it so that a soft landing could be achieved for the debt at small businesses. In addition, the member stated that it would be advisable to prepare for the potential occurrence of synchronized defaults among businesses in some sectors. The member stated that the FX markets were stable overall, as the Korean won to U.S. dollar exchange rate had declined significantly, affected by the fall in the U.S. dollar index stemming from changes in expectations for the U.S. Federal Reserve monetary policy and as foreign exchange had shifted to net inflows.

In consideration of the economic and financial conditions at home and abroad, the member assessed that the current interest rate level was sufficiently tight. The member noted that it would be appropriate to maintain the Base Rate at the current level of 3.50% for the intermeeting period, and to monitor future growth and inflation trends relative to the forecast path, and financial market conditions for the time being.

Another member presented the opinion that it would be desirable to leave the Base Rate unchanged at the current level of 3.50%.

The member argued that, considering financial and economic conditions at home and abroad, the Base Rate should be kept at the current level for this meeting. Looking at the factors affecting rate hikes and cuts, such as inflation and household debt, the member mentioned that consumer price inflation in October reached 3.8% year-on-year, slightly higher than previously forecast, and core inflation had decelerated slowly. The member pointed out that continous management of household debt would be required as household debt was on the rise. The member observed that the domestic economy had shown some alleviation in sluggishness and some signs of recovery led by the semiconductor industry, but that the trend of low growth continued. The member also stated that financial stability risks related to real estate PF loans still existed. Looking at external conditions, the member assessed that the likelihood of further rate hikes had been declining in-line with falls in consumer price inflation in the U.S. and in the EU.

To go into detail, the member commented that the global economy overall had been undergoing difficulties, affected by persistently high interest rates. The member observed that, while the U.S. economy had shown a high growth rate this year on the back of robust employment and excess savings, there were two opposing views about the future outlook of a soft landing and an economic recession, based on data such as the slowdown in payroll gains, a rise in the unemployment rate, and a fall in the rate of wage growth. The member noted that the euro area economy remained sluggish, and that China's economy was expected to recover to some degree backed by the Chinese government's stimulus package amid the slump in the real estate industry and weak domestic consumption. The member also judged that growth in Japan was subdued in the third quarter stemming from tepid domestic demand and that the extent of wage growth for workers going forward was likely to affect the Japanese economy's consumption and growth.

Looking at domestic financial markets, the member noted that the recent decline in U.S. Treasury bond yields had caused Korean Treasury bond yields to decrease as well, and that it also affected Korean market interest rates, but that rising interest rate volatility influenced by the mutual growth of finance had been keeping Base Rate decisions from achieving their intended effects. The member commented that the Korean won-U.S. dollar exchange rate had been stabilizing downward since early November due to the weakening U.S. dollar and the outlook for a recovery in the semiconductor industry, to currently fluctuate at around 1,300, and forecasted that the exchange rate would stabilize with its volatility decreasing in-line with growth in exports. Concerning bank lending to households, the member pointed out that housing-related loans had still been increasing and that it would be therefore necessary to make even more aggressive efforts at loan management to prevent any further rise in the household debt-to-GDP ratio. The member, however, stated that, given that about 90% of domestic banks' net income comes from loan-deposit margins due to the dependence of their business models on household and corporate loans, it appeared challenging to achieve any remarkable reduction in the pace of lending growth without fundamental changes in their revenue structure, which would require innovation in the banking industry as a whole. The member noted that consumer price inflation had been increasing over the recent three months and that core inflation had been slowing at a moderate pace, and projected that the future price path would be somewhat higher than the forecast made at the previous meeting. The member argued that the global oil price trend would be affected not just by future global economic conditions, but also by whether there would be further OPEC+ production cuts. Regarding the labor market, the member assessed that the employment and umemployment rates had been favorable, boosted by growth in employment of people aged 60 or older, as well as of women, but that employment in the manufacturing sector and among young people had been consistently decreasing.

The member assessed that, in overall consideration of these domestic and international financial and economic environments, it would be appropriate to keep the Base Rate at its current level for the intermeeting period and maintain the monetary tightening stance until there is confidence that inflation could reach its target level, while monitoring domestic and overseas economic trends, financial stability conditions, including household debt and real estate project financing, and monetary policy decisions by the U.S. and other major countries.

Meanwhile, another member judged that it would be appropriate to maintain the Base Rate at 3.50% at the meeting.

The member assessed that the global economy had been moving away from the abnormal economic cycle caused by the COVID pandemic and by inflation shocks, gradually returning to its equilibrium level. The member judged that, despite persistently high uncertainties and risk factors, including higher-for-longer rates, geopolitical conflicts, and supply chain segmentation, many countries had been witnessing their growth and inflation returning to their equilibrium levels, boosted by aggressive monetary and fiscal policy responses so far, achieving a soft landing of their economies. The member, however, forecasted that, since inflation would remain above its target until next year and since interest rates would stay higher for longer, the growth rate would be lower next year in the U.S. and in some other advanced countries heavily dependent on domestic demand, but that growth would continue to return to its equilibrium level.

The member projected that, unlike in major advanced countries whose economies were likely to grow at modest paces, Korea's growth rate would be higher than this year both next year and the following year, exceeding the potential growth rate, driven by a recovery in exports following the upturn in the global IT cycle and the spread of the booming eco-friendly industry. The member added that similar growth recovery trends would be seen in other countries with a high proportion of manufacturing among their total exports, such as Germany, Taiwan, Hungary, and the Czech Republic. The member commented that facilities investment was also expected to expand in-line with the recovery of the IT industry, and went on to state that the largest-ever foreign direct investment during January through September this year, driven by the electrical & electronic and information & communications industries, would likely have a positive impact on future facilities investment. The member projected that private consumption, however, would sustain its modest recovery due to debt-servicing burdens, increased demand for precautionary savings due to aging, and a sluggish recovery of foreign tourists.

The member presented the view that consumer price inflation would stabilize gradually, but at a more modest pace than the August forecast. The member explained that this was because accumulated cost pressures, combined with the economic recovery, could lead to a larger pass-through to prices. The member also noted that, coupled with rising inflation expectations, the increase in perceived inflation among individuals — driven by the recent rise in consumer prices, especially for daily necessities, such as agricultural and energy products — could also contribute to a gradual slowdown in overall inflation.

Concerning financial markets, the member noted that declining market rates in major countries, on expectations of an end to rate hikes by the U.S. Federal Reserve, had caused long-term market rates to fall and credit spreads to narrow accordingly. The member, however, pointed out that the risk of market instability had been accumulating due to higher-for-longer rates, with some non-banks experiencing delinquency rates on corporate loans surpassing the mid-5% level, accompanied by sustained net redemptions of PF-ABCP. On the other hand, the member argued that there remained serious concerns about worsening financial imbalances, since household loans in the financial sector maintained their subtantial increase to more than six trillion won, driven chiefly by government-sponsored loans.

Summarizing all these economic and financial conditions, the member assessed that, while the export environment would improve remarkably, consumption had been exhibiting only a modest recovery, inflation had continued to decelerate at a slower-than-expected pace, and financial imbalances caused by an accumulation of private debt had been worsening. The member presented the view that, in overall consideration of the above-mentioned changes in economic and financial conditions, it would be desirable to maintain the Base Rate at the current level for the intermeeting period and monitor domestic and external developments.

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

The member noted that the global economy had entered a phase of inflation cooling as a result of continued high interest rate policies in major countries. The member projected that growth of the real economy would slow gradually as the effects of monetary policy tightening were transmitted. The member commented that the Israel-Hamas conflict had limited impacts so far, but that uncertainties due to geopolitical risks were still elevated.

The member stated that the domestic economy had been improving gradually on the back of an export recovery stemming from the rebound in the semiconductor business, but that private consumption and investment had been somewhat sluggish. The member mentioned that employment had declined in most manufacturing sectors, while the services sector had shown a favorable trend overall, led mainly by increased employment in the health & welfare, information & communications, and specialized science & technology sub-sectors. In terms of wages, the member commented that real wages declined slightly as nominal wage growth had been below consumer price inflation since 2022. The member viewed that any consequent declines in household purchasing power seemed to have limited their capacity for consumption. However, the member assessed that the fall in real wages might have had a positive impact on employment.

The member noted that consumer price inflation had declined to 2.3% in July this year, but that it had risen up again to 3.8% by October. The member stated that underlying inflation indicators, such as core inflation, had been decelerating at a slower pace than expected from the lower-3% levels, and that short-term inflation expectations among the general public had stopped their downward trends, staying at around 3.3% for four consecutive months.

In the meantime, the member stated that financial and foreign exchange markets showed stability, as expectations for the end of the U.S. Federal Reserve's interest rate hikes had strengthend. However, the member noted that delinquency rates on loans to vulnerable sectors, such as real estate PF, continued to rise due to greater interest burdens, and that the size of household loans had increased, led by housing-related loans, depsite the government's efforts to manage household loans. The member assessed that the housing market had slowed somewhat owing to lending regulations and rising interest rates, but mentioned that there was a possibility that latent demand for lending could increase rapidly if financial conditions ease, as expectations of housing price hikes still remained.

To stably manage inflation expectations and expectations of housing price hikes, the member stressed the need for continuing deleveraging efforts through the government’s strengthening of household debt management and the maintenance of high-interest rate stances. The member emphasized that it would be appropriate to maintain the Base Rate at 3.50%, and to decide any future policy directions based on close monitoring of achievements and side effects of high-interest rate policies.

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 expressed concern that domestic prices were showing an upward trend exceeding the path projected in August, and that the anchoring of inflation at the target level appeared to be delayed, both due to increased upward pressures on the supply side, and that household and corporate loans continued to experience a high growth trend. On the other hand, the member saw that international oil prices had increased sharply since the previous forecast due to factors such as cuts at OPEC+ and the Israel-Hamas conflict. However, the member noted that, as of late, the reemergence of concerns about global demand weakening had led to a decline in international oil prices, and that the Korean won to U.S. dollar exchange rate had fallen, which was expected to alleviate some of the persistence of the supply-side upward pressures. The member also expected demand-side pressure not to be significant, since the recovery in domestic consumption also appeared modest. The member saw that the housing market had also shown some signs of contraction lately. The member projected that, after November, consumer price inflation would decrease gradually, and that core inflation would continue its underlying trend of deceleration, albeit at a slow pace. The member also stated that the government was maintaining a sound fiscal policy stance. Given all these factors, the member saw the need to maintain the Base Rate at the current level for now, while monitoring macroeconomic and financial stability conditions and trends in the price path.

The member stated that price inflation had been persistently exceeding the target level for a considerable period. The member presented the opinion that, while price inflation was projected to continue an underlying slowdown in the future, core inflation was decelerating slowly and significant uncertainties still appeared to persist concerning the future movements of international oil prices and exchange rates, as well as the magnitude and sustainability of the ripple effects of the accumulated cost pressures so far. Taking into account factors such as the sustained high growth in household and corporate loans, the member found it desirable to maintain a tightening monetary policy stance going forward.

The member took the view that, in the future, monetary policy will place the greatest emphasis on ensuring that price inflation be rapidly anchored at the target level. The member argued that policy decisions should be made by comprehensively considering possible financial stability risks, trends in household debt growth, changes in major country monetary policies, foreign exchange market movements, and economic conditions. The member expressed the opinion that additional tightening should also be considered, if it was anticipated that the inflation trajectory would exceed the currently expected path and that anchoring at the target level would be delayed further.