# Minutes of the Monetary Policy Board Meeting

April 2023

**Bank of Korea**

English version

# Minutes of the Monetary Policy Board Meeting[1)]

## April 2023

## Ⅰ. Outline

1. Date of meeting: Tuesday, April 11, 2023

2. Place: Monetary Policy Board Meeting Room

3. Monetary Policy Board members present:
   Rhee, Changyong, Chairman (Bank of Korea Governor)
   Cho, Yoon-Je
   Suh, Young Kyung
   Joo, Sangyong
   Lee, Seungheon (Senior Deputy Governor)
   Park, Ki Young
   Shin, Sung Hwan

4. Monetary Policy Board members absent: none

5. Participants:
   Kang, Sungjun, Auditor
   Bae, Joon Suk, Deputy Governor
   Min, Jwa Hong, Deputy Governor
   Lee, Sang Hyeong, Deputy Governor
   Lee, Jongryeol, Deputy Governor
   Kim, Woong, Deputy Governor
   Yang, Seok Jun, Director General of Reserve Management Group
   Choi, Chang Ho, Director General of Research Department
   Kim, Inkoo, Director General of Financial Stability Department
   Hong, Kyung Sik, Director General of Monetary Policy Department
   Park, Jongwoo, Director of Financial Markets Department
   Oh, Kum Hwa, Director General of International Department
   Park, Yang Su, Director General of Economic Research Institute
   Min, Jun Gyu, Director General of Office of Legal Affairs
   Choi, Yong Hoon, Director General of Monetary Policy Board Secretariat
   Kim, Yong Sik, Press Officer
   Choi, Mun Seong, Head of MPB Team

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1) This English version is an excerpt of each Policy Board member's opinion on the Bank of Korea's Base Rate decision from the Minutes of the Monetary Policy Board Meeting.

## Ⅱ. Discussions Concerning Monetary Policy Decision

At the April 11 Monetary Policy Board meeting, each member expressed their opinions 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 3.5% level for the intermeeting period.

One member assessed that the domestic economy had continued to slow since the latter half of last year. The member saw that private consumption was continuing to show sound growth thanks primarily to solid service consumption in line with the expansion of face-to-face activities in the midst of somewhat improved consumer sentiment. However, the member commented that exports and facilities investment were sluggish due to a delay in the spillover effects of the economic reopening in China in the midst of a contraction in the global IT industry. The member saw that the labor market still appeared to remain solid despite slower growth. The member stated that, while the pace of increase in the number of persons employed had slowed somewhat of late, demand for labor remained steady, particularly in the face-to-face services industry.

The member projected that, while the domestic economy would maintain its slowing trend for some time, it would recover gradually, led by exports, from the latter half of this year, bolstered by the effects of the economic reopening in China and a recovery in the IT industry. However, the member judged that downside risks to the growth path had increased somewhat since the previous MPB meeting. The member saw that there were high uncertainties related to monetary policy stances in major countries, to the trends of recovery in China and the IT industry, and to the domestic housing market. The member also stated that there were significant risks related to unrest in the global banking sector as seen particularly in the failures of SVB and Credit Suisse.

The member commented that inflation was running well above its target. The member saw that, while consumer price inflation declined significantly to the lower-4% level in March due, for instance, to a base effect, it still remained elevated. The member stated that core inflation less foods and energy showed a slow pace of decline, remaining the same from the previous month, and highly persistent personal service charges remained elevated. The member expected inflation to slow gradually, but added that uncertainties related to the pace of its decline are very high.

The member saw that, with core inflation showing sticky movements since the end of last year, the economic reopening in China and production cuts by oil producing countries were acting as upside risks to international commodity prices, and, on the domestic front, deffered increases in public utility fees were serving as potential factors making for price instablity. The member also anticipated a second round of spillover effects, wherein corporations would further pass on the increased costs to consumers in the form of higher product prices, owing to the persistently high inflation environment. The member judged that, taking into account these factors, it was still too early to have confidence that underlying inflation would be stabilized downward.

Looking at financial conditions, the member assessed that, while the current Base Rate appeared to have reached a restrictive level, given the accumulated extent of rate hikes and the neutral interest rate level, significant declines in long-term and short-term interest rates were weakening the degree of financial tightening of financial conditions, and, on the liquidity front, it was difficult to say that the current liquidity level was greatly constraining economic activities of households and corporations, judging from various indicators such as M2 growth and the real money gap. However, the member deemed it warranted to observe further the spillover effects of the Base Rate hikes, in that Base Rate hikes would affect the real economy after a time gap.

Meanwhile, the member saw that, as a series of financial incidents had weakened confidence in the banking systems in the U.S. and Europe since the previous MPB meeting, volatility in the global financial market had heightened greatly and liquidity conditions had worsened. The member stated that, fortunately, financial unrest had eased rapidly thanks to swift countermeasures, but concern about a possible spread of the related risk, including withdrawals of funds from bank deposits, was ongoing.

The member stated that, although the domestic financial market remained stable, if this financial unrest in the international financial market reemerged, it could spill over to the domestic financial market. The member expressed the opinion that close attention should be paid to the possibility of credit risks in the real estate sector materializing, particularly in less-regulated non-bank financial institutions, in case of a shock, and such risks speading to other sectors.

In conclusion, concerning the fact that inflation is still high and uncertainties remain with regard to the pace of any future slowdown, the member stated that it would be necessary to maintain the restrictive policy stance for a considerable time until the Board is confident of price stability. However, the member stressed the need to operate monetary policy cautiously, while examining the effects of the rate hikes so far, major economic indicators and future developments in terms of financial unrest, as financial stability risks also appeared to have increased both domestically and internationally. Accordingly, the member expressed the view that it would be appropriate to leave the Base Rate unchanged at the current 3.50% at this meeting. The member went on to argue that it would be necessary to consider whether the Base Rate needs to rise further depending on developments of inflation and monetary policy in major countries.

On the other hand, the member saw that, as there was a possibility of financial unrest at home and abroad, it would be necessary to reduce risk in the vulnable sectors through macroprudential policy tools and make preemptive efforts to strengthen the resilience of the financial system. The member added that, in the event of any financial unrest, it would be necessary to take actions using market stabilization measures, including short-term liquidity injections.

Meanwhile, another member took the view that it would be appropriate to leave the Base Rate unchanged at the current 3.50% at this meeting.

Concerning the domestic economy, the member's assessment was that private consumption had been favorable, recovering from the sluggishness in the fourth quarter last year, with goods and services consumption all increasing in February and March. The member also mentioned that the number of persons employed, meanwhile, had grown at a slower pace, affected by an economic slowdown, and that exports remained on a downward path due to the sluggishness in exports of key items such as semiconductors and steel, and also in exports to China. With regard to financial stability, the member stated that delinquencies on corporate loans from non-bank financial institutions had continued to rise, which was more pronounced in the real estate sector and in provincial areas. The member argued that, compared with the previous savings bank crisis, the current percentage of loans extended to the real estate and construction sectors among total lending, delinquency rates and substandard asset rates are far lower now than during the previous crisis, but that attention should still be paid in order to prevent any prolongation of such delinquencies, which could aggravate financial pressure on financial institutions.

Concerning inflation, the member stated that consumer price inflation had been slowing after having peaked in July last year, while core inflation had remained sticky at around 4%. The member noted that growth in dining-out expenses and rents had exhibited a relatively pronounced slowdown, putting downward pressure on core inflation. The member mentioned that inflation in personal services and industrial goods excluding petroleum products and personal services excluding dining-out had remained at 4%, however. The member argued that, while keeping an eye on these matters, it would be necessary to consider movements of international oil prices and the exchange rate, as well as the timing and extent of hikes in public utility charges, to see whether inflation would be consistent with the BOK path forecast.

With regard to future Base Rate decisions, the member stated that attention should be paid to the following, along with the pace of decline in the core inflation rate on the inflation front. First, the member noted that it would be necessary to consider the possibility of policy rate hike stances continuing at the Fed or other advanced economy central banks. The member mentioned that despite the view that the SBV and CS incidents in March would shrink credit supply, and that they could result in an economic slowdown, financial markets were stabilizing at a rapid pace. On the other hand, the member assessed that core inflation in the U.S. had not declined greatly from the level seen in the second half of last year, and that it was rising in the euro area. The member presented the view that it would be necessary to keep a close watch on how Fed decisions, foreign investment fund flows, current account trends, and market expectation interactions would affect the exchange rate and import prices. Second, the member evaluated that attention should be paid to the adequacy of the pace of disinflation. The member commented that even if consumer price inflation declined in line with the forecast path of the Bank of Korea, the Board should assess whether the pace of disinflation aligned with the 2% target on the Bank of Korea's medium-term horizon, taking into account persistent impacts of internal and external shocks on inflation. Moreover, the member added that reviewing the soundness of financial institutions would be necessary, considering that it had been almost two years since the policy rate hike stance began, and that the possibility of a tightening stance would continue for the time being.

The member stated that there were still high uncertainties regarding external economies that were affecting the Korean economy. The member judged that external factors, such as the timing of any recovery in the IT business, spillover effects from China's reopening, and fragmentation would have significant impacts on growth in the Korean economy. The member noted that the impacts would be highly uncertain on both the upside and the downside, and that it would be important to identify what impacts these external factors would have on long-term trends, such as potential GDP, and on short-term factors, such as the economic cycle. The member commented that making a distinction between secular changes in the potential growth rate and cyclical phases would be essential, and that monetary policy should be implemented for the latter, where monetary policy can and should address matters. However, the member mentioned that there was concern that factors such as the U.S.-China conflict and U.S. industrial policies were not only affecting the recovery of the Korean economy in the short-term after the pandemic, but also long-term growth factors. The member also assessed that it was difficult to distinguish clearly between short-term and long-term impacts of these factors. For example, the member saw that higher self-sufficiency in intermediate goods in China could affect the Korean economic recovery by weakening the spillover effects from China's reopening in the short-term, but that this could be related to the growth engine of the Korean economy in the long-term from the perspective of changes in exports and imports and in industrial structures.

The member commented that a distinction between long-term trends and short-term economic cycles was also important in terms of financial dominance. The member stated that the implementation of an accommodative monetary policy without separating low growth caused by structural factors from that induced by cyclical factors could lead to financial imbalances characterized by higher leverages and asset price bubbles. The member noted that excessive financial imbalances could result in financial dominance where considerations of financial stability may result in a negligible response to inflation. Moreover, the member emphasized the need to clearly recognize that higher leverage could accelerate low growth trends and increase the possibility of deflation in the future by bringing future production and consumption resources into the present. The member added that it would be necessary to respond to changes in long-term trends and short-term economic cycles with separate instruments, just like sticking to the separation principle, which dictates separate responses to current inflation and financial stability issues. As this distinction is very important and difficult, the member stressed that, along with research into factors affecting long-term trends, such as demographic changes and productivity, the Bank of Korea needed to take a lead in and continue its research on new policy instruments for areas where monetary policy responses were difficult and inappropriate, and set up a policy mix with existing macroprudential policies and fiscal policies.

Another member noted that, with respect to the global economy, the downside risks to the growth path had grown, as the risk of defaults in the financial sector had been materializing in consequence of the continued monetary policy tightening, as seen in the collapse of SVB and CS. The member stated that in the U.S., the real economy had started to show signs of a gradual slowdown, with some employment indicators worsening somewhat, but overall employment and consumption remained favorable and inflation had been falling slowly. The member mentioned that, although financial market unrest had increased somewhat after the failure of SVB and eased later thanks to aggressive policy measures, vulnerabilities still remained, and went on to state that trade-offs between price stability and financial stability had been increasing gradually in the implementation of monetary policy in this regard. The member meanwhile presented the view that, although the Chinese economy had been recovering rapidly since its reopening, led by domestic demand, the country's imports and exports had continued to decline due to the sluggishness of the global IT industry and a high level of inventory, which would likely limit the growth path of the global economy.

Looking at the domestic economy, the member mentioned that some indicators had rebounded slightly this year, driven by the easing of COVID-19 restrictions, but the overall real economy had been slowing, affected by downward pressure from external conditions, such as the IT industry and a decline in exports to China. The member forecast that, although consumption and production were estimated to have rebounded slightly in the first quarter from their sharp declines at the previous year-end, GDP growth would fall slightly short of the original forecast in the first quarter, as exports and investment had contracted significantly influenced by external conditions. The member presented the view that GDP growth would recover gradually from the second half of this year, boosted by improvements in exports in line with a recovery in the IT industry and materialized effects from China's reopening, but that the pace of growth would be more modest than originally expected. The member forecast that, in this regard, the growth rate for the year would be slightly below the February forecast (1.6%). The member, however, stated that the timing and pace of the recovery were highly uncertain, depending on the timing of a rebound in the IT industry, spillover effects from the Chinese economy, and global financial market developments following the collapse of SVC and CS.

Concerning inflation, the member‘s evaluation was that consumer price inflation had continued to slow substantially, affected largely by the base-period effects, while core inflation had been somewhat sticky, with both goods and services remaining on the rise. The member expected that consumer price inflation would continue to slow, generally following the path originally forecast, while core inflation would decelerate at a slower pace. The member also forecast that the slowdown in inflation might be limited due to high uncertainties surrounding international oil prices, domestic and overseas economic trends, and hikes in public utility charges, and also to larger-than-expected secondary spillover effects resulting from accumulated cost pressures. With regard to employment, the member stated that growth in the number of persons employed had been slowing at a modest pace and that the pace of growth in basic wages had been slowing slightly.

Regarding financial markets, the member’s assessment was that the volatility of price variables had been easing after having heightened in the wake of the collapse of SVB and CS. The member presented the view that market interest rates remained excessively low, affected by the fall in U.S. market interest rates, and went on to argue that a prolongation of this trend could limit the transmission of monetary policy, and that a careful watch should be kept on market interest rate developments in this regard. The member also noted that some non-bank financial institutions that had significantly increased their exposure to real estate financing were experiencing a rapid increase in delinquency rates, suggesting that there were potential risks related to the real estate market. As for the FX market, the member’s assessment was that the won-dollar exchange rate had remained stable overall, but that the Korean won had depreciated recently relative to other currencies, due mainly to domestic factors such as the continued trade deficit. The member stated that attention should be paid to exchange rate movements, since the combined effects of domestic factors and destabilizing factors in global financial markets could increase FX market volatility.

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 and monitor the transmission of the previous tightening. The member saw that it would be desirable to make a decision about any additional tightening after examining the future growth and inflation path, as well as domestic and overseas financial market conditions.

Another member mentioned that the global economy had shown a more favorable recovery trend than originally expected this year, but that the possibility of growth weakening had grown due to financial strains after the SVB incident. With regard to the domestic economy, the member noted that the contribution of exports to growth had been declining greatly with spillover effects from China’s reopening being delayed amid a deepening slump in the IT business, and that facilities and construction investment were forecast to remain sluggish for the time being. The member stated that private consumption had shown a modest recovery on the back of an additional lifting of restrictions, but that it was unlikely to grow strongly due to interest rate hikes and lower real purchasing power stemming from high inflation. The member assessed that employment conditions were relatively favorable, given the slowdown in the overall economy. However, the member added that the effect of wage income on supporting consumption had been weakening compared to last year as the rise in income appeared to have slowed and the increase in the number of persons employed had decelerated over the past few months. In the meantime, the member evaluated that it would be hard to expect fiscal policy to defend growth this year, as consolidated fiscal expenditures were projected to decline about 4% year-on-year, although government spending was likely to continue rising.

The member took the view that consumer price inflation had declined sharply to the low 4% range in March, while core inflation excluding food and energy had been maintaining a slow deceleration trend, remaining at the level of the previous month (4.0%). However, the member noted that under the current economic situation, demand-side pressure was not the major reason to slow the pace of an inflation slowdown. The member stated that spillover effects of changes in non-core inflation on core inflation could persist for some time due to remaining pressure of increasing costs so far, regardless of demand-side pressure.

The member saw that in the course of raising the Base Rate by 300 bp over the past 20 months, the increase in employment and wages had been slowing gradually along with the plunge in real estate prices and the sharp contraction of household credit. The member commented that it was unclear whether the intertemporal substitution channel was operating due to a savings glut, but that it seemed evident that the effects of monetary tightening had been working through the asset price and credit channels. The member stated that with the time lag of monetary policy being long and variable, the effects of monetary policy could sometimes last until when it was no longer necessary. The member saw that further tightening in order to stabilize inflation at the target level would quickly result in the possibility of excessively dampening economic vitality and increasing the risk of financial turbulence.

The member noted that the recent SVB bank collapse in the U.S. had heightened credit risk aversion and that there is a higher chance that financial institutions will respond in a risk averse manner. The member added that credit contraction and unstable financial conditions would additionally dampen domestic demand by working in the same direction as any Base Rate tightening. The member viewed that the situation surrounding financial stability could be an inflection point in terms of a shift in the monetary policy stance.

The member judged that it would be appropriate to leave the Base Rate unchanged at the current 3.50% at this meeting and examine domestic and overseas financial stability and real economic conditions.

Another member mentioned that the global economy was expected to show higher growth than initially expected earlier this year, thanks to the strong performance of advanced countries and the resumption of economic activity in

China. However, the member added that the downside risk to growth had increased and the outlook for future global interest rates had been revised downward due to financial instability caused by the bankruptcy of SVB in March. The member noted that global inflation had passed its peak and was easing, but that it still remained at a high level. The member went on to argue that OPEC+'s additional production cuts and the demand expansion from China's reopening would be expected to act as upside risks. The member assessed that although private consumption had experienced a modest recovery, the domestic economy was still struggling with an ongoing economic slowdown caused by sluggish performance in the IT sector, weaker exports to China, and a decline in investment. Concerning exports, the member mentioned that, despite a stronger-than-expected growth momentum in major trading partners, there had been a continued decline in exports due to the greater impact from the semiconductor industry and the inventory cycle.

The member commented that CPI inflation was expected to slow rapidly in the foreseeable future owing to base effects arising from a substantial increase in the previous year. However, the member stated that there would be a possibility that hikes in public utility fees and the second-round spillover effect from rising costs would slow the deceleration after the second half of the year when the base effect weakens. The member also presented the view that core inflation had shown significant persistence at a high level and that inflation expectations among the general public had remained at the upper 3% level.

The member stated that after the SVB incident, risk aversion sentiment had been strengthened globally and that there were also expectations of an easing of the Federal Reserve's monetary policy tightening stance. As a result, the member added that the financial market had witnessed a substantial decline in government bond yields, while credit spreads for corporate bonds had widenend. The member went on to stress that even though financial instabilities in the global financial market had been eased considerably in recent times and their impact on the domestic market seemed to be limited, given potential risks in vulnerable sectors it was necessary for authorities to remain alert. The member noted that household loans had decreased at a slower pace as housing-related loans turned to an increase and that the pace of corporate loans had increased.

The member argued that the following should be considered at this month's meeting when deciding the Base Rate. First, the sensitivity of the financial sector and risks from the financial stability perspective had increased following the SVB crisis. Second, exchange rate volatility and potential FX risks had decreased as the pace and extent of future rate hikes by the U.S. Federal Reserve were expected to be lower than the level anticipated at the Feburary meeting. Accordingly, the member judged that it would be appropriate to keep the Base Rate at the current 3.50% at this meeting and cautiously monitor the development of domestic and international financial stability conditions. However, the member commented on the need to pay attention to remaining concerns about any persistence of inflation, seeing as though core inflation still appeared to be rigid. The member noted that the central bank should maintain a monetary tightening stance and should consider further rate hikes if needed while assessing the pace of any inflation slowdown and monetary policy changes in major countries.

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

The member stated that, since the beginning of this year, the world economy had sustained a modest recovery, led by the U.S., the eurozone, and China, despite steep rate hikes and high inflation. However, the member noted that vigilance against financial unrest and downside risks to growth had increased since the failure of Silicon Valley Bank (SVB) in March. The member saw that this had led to a slowing of the pace of tightening by major central banks, including the U.S. Federal Reserve and the Bank of England. The member saw that major central banks' concerns related to a policy balance between price stability and financial stability had grown further due to the coexistence of a risk of a credit crunch constraining growth and a risk of a slowdown in inflation being pushed back, affected by the management of such financial unrest. The member also commented that the recent financial instability was a kind of unexpected financial unrest, which is unavoidable during a monetary tightening period, and it reminded us of the importance of swift and sophisticated market stabilization measures to deal with this instability.

The member stated that, despite a recovery in private consumption, domestic economic growth was running below its potential growth rate due to a decline in exports. The member expected the economy to rebound after the latter half of this year, but saw that there still remained high uncertainties surrounding the recovery momentum, such as the IT industry and the Chinese economy. The member noted that consumer price inflation declined to 4.2% in March. The member saw that core inflation remained unchanged at 4% from the previous month, but anticipated that it would slow, as an economic slowdown and declining enegy prices would be reflected after a time gap going forward. The member saw that in the labor market the extent of increase in the number of persons employed had lessened due to an economic slowdown, but that quantitative employment growth exceeding growth in the working-age population was still continuing. Nonetheless, the member noted that upward pressure on wages was declining and labor productivity, which had rebounded temporarily during the COVID-19 pandemic, was slowing again as employment grew, especially in the low-wage sectors, following recoveries in the hotel & restaurant and health & welfare sectors, as well as growth in the elderly and female participation rates in economic activity. The member raised great concern that, while the expansion in employment, led by these low-wage sectors, and a contraction in employment in high-wage sectors, such as the manufacturing and financial sectors, would ease inflationary pressure in the labor market, they would work to weaken the base for growth in the long-term.

The member stated that in the financial and foreign exchange markets volatility of price variables had heightened greatly, affected by global financial market movements, but it then declined following the easing of unrest in the banking sector in major countries. The member saw that the SVB failure was having limited spillover effects thanks to enhanced soundness of the financial system in major countries and improved foreign exchange soundness at home since the outbreak of the global financial crisis. However, the member argued that there were significant potential risks, such as declines in loans and deposits, and a rise in the loan delinquency rate at non-bank financial institutions with a large exposure to real estate, and the re-widening of credit spreads on low-rated bonds. The member saw that with respect to the housing and leasehold deposit *(jeonse)* markets, the volume of housing transactions had increased and prices were showing smaller declines, influenced by the easing of the relevant regulations, but that housing-related loans were increasing again, led by policy financing. The member thus called for closer attention on this matter.

The member saw the need to keep the Base Rate at the current level at this meeting and monitor the effects of the rate hikes so far and future developments in domestic and overseas economic conditions, given that economic downside risk appears to still be large, that the pace of inflation is slowing down, and that potential risks of financial instability still remain high. The member projected that inflation would continue to slow, but that it would still be necessary to keep a close eye on it, given the high inflation expectations, the upward trend in personal service charges, which are rigid, and the prospect of a resurgence in international oil prices. Accordingly, the member argued that the Board should judge whether the Base Rate needs to rise further, while examing economic conditions, and prices in particular, considering the environmental change in economic trends and financial stability together in a balanced manner.