Minutes of the Monetary Policy Board Meeting

April 2024

Bank of Korea

English version

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April 2024

Ⅰ. Outline

1. Date of meeting: Thursday, April 12, 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
   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 April 12, 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 has been growing moderately overall due to monetary policy tightening, with the U.S. sustaining growth far exceeding initial expectations. Going forward, the global economy is expected to show improvement in-line with progress on disinflation, but uncertainties along the growth path stemming, for instance, from geopolitical risks, are assessed to be significant.

The member saw that inflation in major economies continued to slow, but the process of converging on the target remained uneven. Service prices remain elevated, constraining rapid disinflation, and recently elevated international oil prices are likely to remain high for some time due to rising geopolitical risks and due to extended production cuts by OPEC+.

The member noted that, in international financial markets, key price variables have fluctuated, largely influenced by changes in expectations for the U.S. Federal Reserve monetary policy. Long-term government bond yields in major economies, which had fallen in anticipation of a rate cut by the Federal Reserve, rose again due to factors such as economic indicators surpassing market expectations, and the U.S. dollar also showed strength.

The member saw that the domestic economy continued to improve on the back of ongoing strong exports, despite a modest recovery in consumption. Going forward, with continued strong exports and a gradual recovery in domestic demand, including consumption, growth for the year as a whole could surpass the February forecast.

The member noted that, looking at domestic inflation, while core inflation continued its underlying slowdown trend, the slowdown in consumer price inflation was tempered by continued high agricultural product prices and by rising petroleum product prices. Going forward, a moderate slowdown in core inflation is expected, but the slowdown in consumer price inflation is expected to be bumpy, depending on agricultural product price developments and international oil price movements.

The member commented that, in the domestic financial market, long-term interest rates had rebounded of late due to weakening expectations of a U.S. Federal Reserve rate cut, and that the Korean won to U.S. dollar exchange rate had also increased influenced by the weakening of currencies in neighboring countries, such as the yuan, and the strengthening of the U.S. dollar. Stock prices have risen, driven by improvements in the semiconductor industry.

The member stated that, looking at household lending in the financial sector, growth in mortgage loans slowed, while other loans continued to decline. Given weakening expectations of housing price increases and the outlook for continued sluggishness in the real estate sector, household lending growth is expected to remain low for the time being.

Meanwhile, the member presented the opinion that, as loan delinquency rates for real estate project financing and at non-bank financial institutions continued to rise, it would be necessary to examine risks more closely, keeping in mind the possibilities of deterioration in asset quality of related financial institutions, as well as of the weakening of their financial intermediary functions.

The member saw that, in summary, while the economy would continue a gradual improvement, inflation was expected to remain on its underlying slowing trend. However, risks in the final stages of disinflation are assessed to persist, including the still high uncertainty surrounding international oil price and agricultural product price forecasts.

The member presented the view that, taking all these factors into overall consideration, it would be desirable to maintain the Base Rate at the current level of 3.50% at this meeting. Given that this is a critical period for the stabilization of inflation expectations to ensure the downward stabilization of inflation, it is necessary to sufficiently continue tightening, the member noted, until there is confidence that inflation expectations have stabilized enough to withstand some degree of supply shock.

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 visibly recovering, driven by stronger-than-expected growth of the U.S. economy, which has led to upward revisions in global economic forecasts, alleviating concerns about a hard landing. There is a growing consensus that the global tightening cycle may have reached its peak, leading to a gradual easing of monetary policy. This easing is expected to act as additional upward pressure on growth prospects. Going forward, countries are likely to adopt varying monetary policies based on their domestic economic conditions and inflation rates.

However, the member stated that a slower-than-expected disinflationary trend could have the potential to contstrain any positive momentum in the real economy by delaying the timing of the monetary policy shift. Unpredictable geopolitical risks and the outcome of the U.S. presidential election are the variables that will have the greatest impact on global investment and trade conditions.

The member saw that the domestic economy was showing moderate growth with exports, including semiconductors, leading the recovery, as external conditions improved. However, due to high interest rates and inflation, consumer and investment capacity has weakened, exacerbating the imbalance between domestic demand and exports, and sectoral differentiation in the labor market is also happening. To sustain the current economic recovery momentum, efforts to stabilize prices and buffer downward risks to consumption should be key priorities for future economic policy.

The member stated that inflation was expected to continue on an underlying downward trend. While core inflation is on a broadly stable downward trend, consumer price inflation is likely to experience intermittent bumps along the way to the target due to supply-side shocks, including instability in international oil prices and volatility in agricultural product prices.

The member noted that the recent slowdown in household lending, based on stable housing price movements, had reduced risk factors in financial markets. With the exception of some non-banking financial institutions, there are no signs of liquidity pressure yet, and the real estate project financing situation is unlikely to lead to financial system instability, but an orderly restructuring is still needed to prevent potential risks from materializing.

Despite strong exports and the accompanying widening of the current account surplus, net foreign exchange inflows, and stable foreign capital market conditions, the member saw the need to strengthen monitoring of exchange rate movements, which remained high. As corporate debt is higher and rising at a faster pace than in major economies, and as delinquency rates are rising relatively sharply, it is deemed necessary by this member that the level of vigilance be raised in order to prevent corporate financial risks from being linked to financial instability factors.

Given these domestic and external economic conditions, the member found it appropriate to maintain the Base Rate at the current level of 3.5% at this time. Amid the strengthening need for a recovery in weakened domestic demand momentum, it is desirable to take responsive actions with consideration to future policy rate decisions in major economies, such as the United States, the trajectory of prices, and the flow of household debt linked to the real estate market.

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, amid a favorable global economic movement, the anticipated timing of a shift in the tightening policy of the U.S. Federal Reserve had been delayed in international financial markets, as economic indicators from the U.S. had been solid. Specifically, the U.S. economy is showing a growth trajectory surpassing expectations, as consumption remains strong and as the labor market demonstrates robust performance, potentially resulting in a slower-than-expected inflation deceleration due to demand-side pressures. In the euro area, although weakness persists, a gradual improvement is expected as it moves away from the era of high interest rates and inflation. Despite ongoing weakness in the real estate market, China's economic indicators have been picking up recently, led by manufacturing and exports, on the back of increased government policy support.

As for the domestic economy, the member noted that consumption had been sluggish while exports had been robust, exhibiting uneven growth across sectors. Private consumption, which had been in a slump since the second quarter of 2023, has remained lackluster this year, with the February Retail Sales Index declining significantly. On the other hand, the extent of growth in exports began to increase gradually from the first half of 2023. Customs-cleared exports have remained favorable and the current account surplus has continued into 2024, as well. The labor market has been strong, with a continuous rise in the number of persons employed driven mainly by women and the elderly, and in the services sector. However, as the extent of increase narrowed more substantially than expected in March, it would be necessary to keep a close eye on future developments. While exports are projected to continue their steady rise, private consumption is expected to recover modestly. Going forward, the domestic economy is likely to witness differentiation across sectors for some time.

The member commented that consumer price inflation had recently rebounded owing to rises in agricultural prices and global oil prices. However, core inflation, implying the underlying trend of prices, has continued to slow. As the persistence of tepid private consumption leads to the weakening of demand-side pressure as well, inflation is expected to show a modest slowdown, led primarily by core inflation. Nevertheless, it is worth noting that uncertainties over the projected inflation trajectory have increased due to a potential resurgence in agricultural prices and an increase in international oil prices arising from geopolitical risks. Moreover, it is necessary to prepare for the possibility that greater volatility in domestic agricultural prices could be a structural problem caused by climate change.

Meanwhile, the member observed that in global financial markets since the February MPB meeting, long-term Treasury yields had fallen and then rebounded due mainly to changes in the expected timing of the Federal Reserve's policy pivot following the release of U.S. economic indicators. In domestic financial markets, long-term government bond yields have been stable, fluctuating within a narrow band, as expectations regarding monetary policy in Korea remained steady. The downward trend in the domestic real estate market has slowed, with some signs of a rebound in apartment prices in certain regions. Although growth in household loans has been decelerating, the delinquency rate has been on a sharp rise. As for corporate credit, the delinquency rate rose steeply amid its rapid increase. Real estate project financing loans have been generally stable amid favorable liquidity conditions in financial markets as a whole. However, due to high uncertainties regarding the repercussions of future project financing restructuring and the fast-rising delinquency rate at some non-bank depository institutions with large exposure to the real estate sector, it is judged that financial risks due to tightening have been increasing gradually. In the domestic foreign exchange market, the Korean won to the U.S. dollar exchange rate also rose due to the global strengthening of the dollar. However, the foreign money market exhibited stable movements across the board, with incentives for arbitrage trading declining and CDS premiums staying low.

Considering the domestic and external economic and financial conditions above, the member assessed that it would be appropriate to leave the Base Rate unchanged at the current 3.50% at this meeting. The general public's perception of economic conditions has recently worsened due to weak domestic demand, and the construction and real estate sectors have seen a steep rise in delinqency rates. However, consumer price inflation picked up and there are some signs of apartment prices rebounding in some regions. Both the risks from the ongoing tightening and the easing of tightening have increased, weighing more on the conduct of monetary policy. Going forward, the timing of rate cuts should be decided by closely monitoring economic developments including inflation and domestic demand, as well as financial conditions at home and abroad, and it would be desirable to minimize risks caused by the easing of tightening through coordination of macroprudential policies with financial authorities.

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 inermeeting period.

The member judged that the global economy would likely improve gradually going forward with better-than-expected growth. The U.S. has sustained its robust growth, significantly surpassing initial projections largely due to domestic consumption. The euro area has exhibited tepid growth owing to elevated interest rates, but is projected to show a modest recovery after the second half of the year. In China, the real estate sector is expected to remain sluggish, but is likely to continue a modest recovery trend thanks to government pump-priming measures. In major economies, although inflation has continued to decelerate, core inflation is coming down at a slow pace.

The member saw that the domestic economy was projected to improve continuously as initially anticipated. Regarding private consumption, while goods consumption has been slow, it is expected to recover modestly going forward. Exports have continued to show solid growth on the back of the recovery in the IT industry and are forecast to improve steadily. Construction investment, which rebounded sharply early in 2024, is expected to shift to a decrease, while facilities investment will likely continue its improvement supported by the recovery in the IT sector. It is judged that the job market has been strong in general. Although the real estate sector is likely to remain stable for the time being, uncertainties are high. Domestic consumer price inflation in March stayed at 3.1%, the same as the previous month, due to increases in agricultural prices and global oil prices. However, core inflation decreased, sustaining the underlying trend of a slowdown. Inflation expectations resurged in March due to high agricultural product prices. Inflation is projected to continue its slowing trend owing to the sluggish recovery in consumer spending. However, along the future trajectory of inflation, there is a high level of uncertainty associated with factors such as movements in agricultural prices and global oil prices, as well as geopolitical risks.

The member noted that in global financial and foreign exchange markets, major price variables had fluctuated owing to changes in expectations of monetary policy by the U.S. Federal Reserve. In local financial markets, however, financial conditions have continuously eased, with falling short- and long-term interest rates and a stock price rally. The Korean won to the U.S. dollar exchange rate has risen significantly on concerns about delayed rate cuts by the U.S. Federal Reserve, and its volatility has expanded. Growth in housing-related loans has been slow, but corporate loans have been growing rapidly led by bank lending. Recently, the growth rate of M2 has also been rising to some extent.

Considering all the conditions mentioned above, the member judged that it would be appropriate to keep the Base Rate unchanged at 3.50% at this meeting. While inflation is expected to slow continuously as an underlying trend, there is still high uncertainty surrounding the future inflation path due to supply-side risks. The delinquency rate on corporate lending has increased and real estate project financing risks have remained, but, for now, their impacts on the financial system as a whole seem limited. In terms of economic activity, growth is projected to continue at or above the potential level, and financial conditions have been continuously easing. Thus, it is assessed that there is no need to rush to pivot from the stance of monetary tightening. Uncertainties along the inflation path still remain and if the process of bringing down inflation to the target level is delayed, the cumulative burden of inflation could increase and thus undermine the stability of the currency value. Therefore, it would be desirable to maintain the stance of monetary tightening for a sufficient period of time.

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 saw that major economies, amid slowing disinflation, were showing differing growth rates depending on the degree of their adaptation to changes in industrial structure and technologies in the post-pandemic era. In the U.S., amid sustained demand growth driven by robust employment and expansionary fiscal policies, disinflation and growth expansion are taking place simultaneously. Positive supply shocks have also occurred due to the progress made in automation in response to the contraction in global value chains and to expanded investment following aggressive industrial policies. European countries, on the other hand, have been simultaneously experiencing both declining inflation and sluggish growth due to a stagnation in labor productivity resulting from the sluggish manufacturing sector and to a delay in any recovery in demand. In addition, countries such as Australia, New Zealand, Canada, and Sweden, which experienced a surge in private debt during the pandemic, are growing slowly this year due to the effects of an extended period of high interest rates, similar to last year.

The member stated that, in Korea, while exports and investment in major manufacturing industries such as IT and automobiles had been strong and expanding, consumption had been lackluster and labor productivity had been declining, particularly in the services sector, leading to deepening sectoral divergence. The recent surge in exports is likely to boost growth in business and household income, leading to a recovery in domestic demand and thus have a positive effect on the overall economy. However, given the impact of elevated inflation, the accumulated debt repayment burdens, and low consumption propensities among baby boomers, it is difficult to dismiss the possibility of sluggishness in consumption evolving into a prolonged structural phenomenon.

The member commented that, while demand-side inflationary pressures have remained subdued in Korea due to sluggish domestic demand, supply-side inflationary pressures have increased even further, driven by recent surges in agricultural product prices, as well as rises in global oil prices and the exchange rate. It would be premature to conclude that the economy has deviated from the February forecast path, given the mix of upside and downside risks, the member noted. However, since significant uncertainties persist, it is necessary to carefully monitor the future price path while keeping a close eye on these uncertainties.

The member assessed that foreign exchange and financial markets remained stable overall thanks to reductions in medium- and long-term foreign currency borrowing premiums and in corporate bond credit spreads, as well as net inflows of foreign portfolio investment, which offset rises in the won-dollar exchange rate and in long-term market rates caused by the expected delay of the U.S. Federal Reserve's rate cuts. However, potential destabilizing factors due to interaction between debt and high interest rates persist, including growth in delinquencies, particularly on loans to vulnerable households and in the construction and real estate sectors, and there were concerns regarding a possible deterioration in asset quality at certain non-bank financial institutions.

Given the economic and financial conditions mentioned above, the member noted that there was an increasing need to normalize interest rates to mitigate persistent sluggishness in domestic demand and alleviate the accumulated burdens from borrowing. However, significant uncertainties persist both domestically and internationally surrounding the price path, and more time for observation is needed to determine whether stability has been achieved in real estate market sentiment and household debt. In this regard, it was deemed appropriate to keep the Base Rate at its current level at this meeting. Nevertheless, interest rate normalization can be initiated once we are confident that supply-side pressures on prices will not increase and that prices will align with the current forecast path, the member noted. This should be accompanied by an active use of supplementary policies, including macroprudential and foreign exchange policies, to prevent the occurrence of internal and external financial imbalances. Above all, considering that the role of monetary policy is primarily to mitigate economic fluctuations rather than to drive long-term structural improvements, it is crucial to examine how central bank balance sheet policies are used and at the same time, efforts should be maintained to propose policies aimed at implementing structural reforms and in enhancing productivity.

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 saw that, while global trade had begun to recover modestly from its slowdown, many countries were still exhibiting weak growth. Consequently, interest rates are expected to vary across countries accordingly. The U.S., in particular, continues to experience higher-than-forecast growth and robust employment, with consumer price inflation standing at 3.5%, up from the previous month. As a result, mounting concerns have arisen regarding a potential delay in rate cuts by the U.S. Federal Reserve.

The member mentioned that, despite sluggish retail sales attributed to high inflation and high interest rates, the domestic economy was forecast to grow by around 2.1% annually, boosted by favorable exports, particularly in semiconductors. However, economic sentiment is expected to vary significantly across sectors. Regarding the labor market, aggregate indicators, such as employment and unemployment rates, have been showing favorable trends despite subdued domestic demand. This has been driven by sustained growth in the labor supply of women and of the elderly.

The member observed that consumer price inflation was expected to maintain a moderate slowdown, but that uncertainties persisted due to increases in agricultural and global oil prices. Despite the current account surplus, the exchange rate remains high, driven by global dollar strength, which may contribute to future import price hikes. Core inflation, excluding highly volatile food and energy, stands at 2.4% year-on-year and continues to show a downward trend. However, CPI for living necessaries, representing items on which households spend a substantial amount, has risen to 3.8% year-on-year from the previous month’s 3.7% (in February). To stabilize prices of essential goods, crucial for low-income households, more structural and fundamental policies are needed. These include improving distribution structures and decisively easing import regulations.

The member saw that, while the adverse effects of prolonged high interest rates were evident across the economy, it was still crucial to prioritize price stability. It is now the time to maintain the Base Rate at its current level of 3.5%, the member noted, and closely monitor unfolding trends in major countries’ monetary policies, while paying close attention to the future resolution of real estate project financing loans and the subsequent situation of non-bank financial institutions.