Minutes of the Monetary Policy Board Meeting

October 2024

Bank of Korea

English version

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October 2024

Ⅰ. Outline

1. Date of meeting: Friday, October 11, 2024

2. Place: Monetary Policy Board Meeting Room

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

4. Monetary Policy Board members absent: none

5. Participants:
   Lee, Jongryeol, Deputy Governor
   Kim, Woong, Deputy Governor
   Chae, Byung Deuk, Deputy Governor
   Kwon, Min Soo, Deputy Governor
   Park, Jongwoo, Deputy Governor
   Lee, Jae Won, Chief Economist
   Lee, Jiho, Director General, Research Department
   Chang, Cheong Soo, Director General, Financial Stability Department
   Choi, Chang Ho, Director General, Monetary Policy Department
   Choi, Yong Hoon, Director General, Financial Markets Department
   Yoon, Kyoungsoo, Director General, International Department
   Oh, Kum Hwa, Director General, Reserves Management Group
   Baek, Mooyeol, Director General, Office of Legal Affairs
   Lim, Kun Tae, Monetary Policy Board Secretariat
   Kim, Yong Sik, Press Officer
   Hur, Hyun, Head, MPB Administrative Support Team

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

Ⅱ. Discussions Concerning the Monetary Policy Decision

At the October 11, 2024, Monetary Policy Board meeting, each member expressed their opinion on the Bank of Korea’s Base Rate decision.

The majority of members shared the opinion that, in overall consideration of the domestic and international financial and economic environments, it would be desirable to cut the Base Rate from the current 3.50% level to 3.25% at this meeting, while one member argued for holding it at its current level for the intermeeding period.

One member expressed the view that it would be appropriate to lower the Base Rate to 3.25% from the current 3.50% at this meeting.

The member expected the global economy to maintain moderate growth, led by the service sector. However, downside risks to the future growth path appear to have somewhat increased due to the possibility of economic slowdowns in major countries and heightened tensions in the Middle East.

The member saw that inflation in major countries has continued to slow and stabilize. International oil prices have become somewhat more volatile, having fallen significantly and then risen again amid recent escalating tensions in the Middle East.

The member stated that in global financial markets government bond yields in advanced economies and the dollar index have rebounded significantly, as expectations of the pace and extent of U.S. Federal Reserve rate cuts were adjusted, affected by favorable economic indicators in the U.S. since mid-September. Global stock prices have risen, driven by strengthened expectations of a soft landing in the U.S. economy and economic stimulus measures by the Chinese government.

The member noted that in domestic financial and foreign exchange markets, long-term Treasury bond yields and the won/dollar exchange rate declined considerably before rebounding. Stock prices showed an upward trend after U.S. Federal Reserve rate cuts, but then have fallen recently, influenced by concerns about a slowing in the semiconductor industry and by escalating tensions in the Middle East.

As for the domestic economy, the member mentioned that exports have maintained a high growth trend, led by IT products, while domestic demand has shown a slow recovery. Going forward, the domestic economy is expected to show a modest growth trend, but downside risks to growth seem to have risen, such as a slump in construction investment. In addition, uncertainties surrounding the forecast path have been elevated somewhat, related to economic conditions in major countries, to the direction of the global IT sector, and to geopolitical risks in the Middle East.

The member stated that domestic inflation has continued its downward stabilization trend. In September, consumer price inflation fell below 2% due to falling global oil prices and due to the stabilization of agricultural product prices, and core inflation has also dropped to 2.0%. Looking ahead, inflation is forecast to remain stable at around its target level of 2%.

The member observed that household loans in the financial sector rose at a much slower pace in September. This seems to have resulted from the effects of government measures, the strengthening of household loan management by the banking sector, and temporary factors. Going forward, a continued slowdown in household loans is expected. However, it is necessary to closely monitor relevant developments as trends can shift based on changes in the housing market.

Meanwhile, the member pointed out that although the government's real estate project financing soft landing measures have proceeded smoothly, delinquency rates on loans from non-banks still remain at high levels, thus making it necessary to pay continued attention to related risks.

In summary, the member projected that the domestic economy would show a modest recovery trend, with somewhat higher uncertainties on the forecast path, and that inflation would stabilize around the target level. The increase in household debt is expected to fall gradually, affected by the government's macroprudential measures, but concerns about household debt are still high.

Taking these circumstances into comprehensive consideration, the member took the view that it would be appropriate to cut the Base Rate by 0.25%p from 3.50% to 3.25% at this meeting. As for future monetary policy direction, it would be necessary to keep paying attention to the economy and inflation, while remaining vigilant concerning the household debt situation, and then to carefully determine the pace of any further Base Rate adjustments.

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

The member judged that, although major countries had begun cutting interest rates in earnest, supported by ongoing disinflation, the pace of these cuts was expected to vary depending on each country's economic situation.

Concerning the domestic economy, the member forecast that this year's growth rate would reach its long-term average, driven by strong semiconductor-led exports. In terms of employment, aggregate indicators are favorable, with the unemployment rate hitting a record low, offsetting the somewhat slower growth seen in the number of persons employed.

The member stated that consumer price inflation had fallen into the 1% range for the first time in over three years. It is still a bit too early to be relieved about inflation, given uncertainties surrounding global oil prices due to instability in the Middle East and potential factors that could lead to increases in public utility fees. However, achieving disinflation while maintaining the Base Rate lower than that of other advanced countries is undoubtedly a meaningful outcome. However, it is regrettable that more deleveraging did not occur in the household and corporate sectors to strengthen their economic fundamentals during the high interest rate period.

The member judged that, given sluggish domestic demand as seen in a slump in the construction sector and the high delinquency rate in some vulnerable sectors, conditions have fully matured for a rate cut. However, housing price surges in parts of the Seoul metropolitan area and consequent household debt growth are of serious concern. Housing price rises in specific areas could worsen asset inequality and ultimately undermine efficient resource allocation within the economy.

The member noted that, thanks to the government's aggressive macroprudential policy measures, the upward trend in housing prices in these areas and household debt have been somewhat slowing. However, factors contributing to housing price instability, such as concerns about supply shortages in preferred areas, still persist. Furthermore, expectations of monetary easing can fuel housing price hikes again. In this regard, more time is needed to further examine the trend in housing prices and household debt, and it would be therefore appropriate to leave the Base Rate unchanged at the current 3.50% level for the intermeeting period and monitor major countries’ monetary policies and the process of resolving real estate project financing issues to determine future policy directions accordingly.

The member mentioned that private consumption remained sluggish due to long-standing high interest rates and inflation. Among other issues, high price levels driven by the sustained uptrend in prices is one of the main factors constraining consumption. In light of this, maintaining a monetary tighetening stance, even though inflation has fallen to its target level, would help enhance real household purchasing power and support the recovery in private consumption.

Another member expressed the view that it would be appropriate to lower the Base Rate to 3.25% from the current 3.50% at this meeting.

The member saw that, regarding global economic developments, uncertainties surrounding the economic outlook in major countries have somewhat increased, while inflation continued to slow. The U.S. Federal Reserve cut its policy rate by 0.5%p in response to downside risks in the labor market. Other major central banks, such as the European Central Bank and the People's Bank of China, have also continued their rate-cutting trends to support economic recovery, signaling a full-scale easing of financial tightening. In international financial markets, major price variables have fluctuated significantly, driven by the U.S. Federal Reserve's rate cut, shifting expectations regarding the pace of future rate cuts by the Fed, China's economic stimulus measures, and risks in the Middle East.

In the domestic economy, the member noted that export growth, particularly in semiconductors, has continued, but that domestic demand has been slow to recover, leading to a continued divergence between domestic demand and exports. As for employment, the unemployment rate is at a low level, but the growth in the number of persons employed is gradually slowing. Going forward, the domestic economy is expected to show moderate growth as exports continue to increase and as consumption gradually recovers. However, uncertainties over the growth path appear to have increased due to geopolitical unrest, economic trends of the global IT industry, and the pace of recovery in domestic demand.

The member took the view that domestic inflation was showing clear signs of stabilization. In September, consumer price inflation fell below the inflation target, influenced by declining international oil prices and stable agricultural product prices, while core inflation also continued its downward stabilization. Going forward, inflation is expected to remain at around 2% for both consumer and core inflation due to low demand pressure and the base effects from last year's sharp rise in international oil and agricultural product prices. However, uncertainties related to international oil prices, exchange rate movements, and public utility fee adjustments remain high.

The member saw that, in domestic financial markets, the easing of financial conditions over the past few months seemed to have slowed somewhat, despite the U.S. Federal Reserve's rate cut. Lending rates have started to rise again, and the trend of credit expansion has slowed somewhat, particularly in the household sector. In the housing market, price growth has slowed and transaction volumes have declined, particularly in the Seoul metropolitan area, due to the government's tightening of macroprudential regulations, while household loan growth is expected to have contracted considerably in September. However, uncertainties remain regarding future movements in the housing market and household debt due to high expectations for rising housing prices and buying sentiment.

In domestic foreign exchange markets, the member noted that the Korean won to U.S. dollar exchange rate fell due to the U.S. Federal Reserve's pivot in policy stance and the strengthening of the yen and the yuan, but it later reversed upward due to foreigners selling domestic stocks, strong September U.S. employment data, and heightened geopolitical risks in the Middle East.

The member commented that, in summary, since the Monetary Policy Board meeting in August, domestic demand recovery has remained sluggish, and downside risks to growth have increased, while consumer price inflation has remained below 2%. Additionally, the government's macroprudential policy measures have somewhat cooled the overheating of the housing market, leading to a slowdown in household lending growth. Furthermore, the U.S. Federal

Reserve's “big cut” has also helped to fairly ease risks in the foreign exchange sector. These points are seen to have laid the groundwork for a slight adjustment in the degree of monetary policy tightening.

In light of these considerations, the member found it appropriate to cut the Base Rate by 0.25%p to 3.25% at this meeting, from the current level of 3.5%.

Given the high likelihood that the trade-offs between growth and financial stability would persist for some time and that uncertainties regarding financial stability remain, the member pointed out that the timing and pace of any further rate cuts should be determined by carefully considering the relationship between policy variables, such as inflation, growth, and financial stability, while closely examining the effects of the policy shift.

Another member presented the view that it would be appropriate to cut the Base Rate from the current level of 3.50% to 3.25% at this meeting.

The member observed that uncertainties surrounding external conditions for monetary policy have somewhat increased recently. After dropping to the lower 1,300 won level following the U.S. Federal Reserve’s policy pivot, the won-dollar exchange rate has fluctuated considerably, affected by escalating geopolitical risks in the Middle East, by the release of stronger-than-expected U.S. employment indicators, and by the announcement of the inclusion of Korean Treasuries in the WGBI. Oil prices, meanwhile, exhibited downward movements, influenced by weakening demand from China, and then have rebounded to the high $70 per barrel range. Going forward, external conditions will continue to depend hugely on developments in the Middle East, on monetary policy directions of the U.S. and of other major countries, on the outcome of the U.S. presidential election, and on China’s growth and the effects of its stimulus measures.

The member observed that, despite sluggish recovery in construction and facilities investment, the domestic economy had shown growth broadly in line with its potential level, supported by continued steady exports and a resumed recovery in private consumption. From the trend in credit card usage and nowcasting results, it appears that consumption is recovering, and both unemployment and employment rates are favorable. However, growth in the number of persons employed has slowed and improvements in employment quality have also somewhat decelerated, particularly among the self-employed facing structural difficulties.

The member stated that, going forward, the domestic economy is expected to continue its moderate growth, driven by an increase in exports centered on IT products and by a recovery in consumption. However, the pace of growth is likely to be gradual due to the limited spillover effects of exports on domestic demand, the structural difficulties in the self-employed sector, a slowdown in employment growth and declining propensity to consume arising from population aging, and conservative fiscal management.

The member saw that inflation has been in the mid-1% range due to slower growth in petroleum and agricultural product prices. However, core inflation, which excludes temporary factors from the supply side, and other underlying inflation indicators have remained close to the target level of 2%. In addition, inflation expectations among the general public have also slowed to pre-inflation spike levels. As a result, inflation is expected to remain below 2% for the time being, but stabilize at the target level from next year onward.

The member noted that, regarding financial conditions, there has been a decline in both short-term and long-term market interest rates, but that lending rates have risen significantly as the markup on interest rates has been raised, and stock prices have fallen. Meanwhile, the government's strengthened macroprudential policy measures have led to a slowdown in household lending growth, and, as a result, the overheating of the housing market in the Seoul metropolitan area has somewhat subsided.

However, the member saw that it is difficult to be assured that the housing market in the Seoul metropolitan area has cooled, as the real estate market tends to show high persistence and is heavily influenced by the expectations of market participants. Considering the ample liquidity held by households and their heightened expectations for housing price growth due to concerns over the supply-demand imbalance in the Seoul metropolitan area, there is a risk that housing prices could rise rapidly again, leading to a substantial increase in household lending. However, based on changes in housing transaction volume, price growth, and movements of other leading indicators, it was cautiously assessed that the overheating of the housing market in the Seoul metropolitan area may be calming.

The member stated that, considering the overall domestic and global economic conditions, inflation is steadily converging toward the target level, and that government's strengthened household debt management have mitigated potential monetary policy trade-offs between growth and financial stability.

In light of these considerations, the member saw the need to begin adjusting the Base Rate downward, which had been raised as a response to high inflation, and found it desirable to cut the Base Rate from 3.5% to 3.25% at this meeting.

However, the member pointed out that there were a number of risks, including the fact that inflation, household debt, and housing prices have already risen to levels that were restricting household consumption and the housing affordability of young people and low-income groups. Additionally, the boosting effect of a policy rate cut on domestic demand would be more limited than in the past, and there is a possibility that household debt and housing prices could respond sensitively to any easing of financial conditions.

Therefore, the member believed that it would be appropriate to keep the Base Rate unchanged for the time being, and to monitor the effects of this rate cut, to changes in external conditions, and to changes in risks to domestic inflation, growth, and financial stability.

Another member expressed the view that it would be appropriate to lower the Base Rate from the current 3.50% to 3.25% at this meeting.

The member commented that while the global economy has maintained a modest recovery trend, uncertainties have increased due to the U.S. election, geopolitical risks in the Middle East, and the sluggish Chinese economy. In the case of the U.S., the U.S. Federal Reserve made a preemptive big rate cut at the September FOMC meeting to prevent a labor market slowdown, but uncertainties have heightened about the pace and extent of further rate cuts with continuing favorable economic indicators. In the case of China, the Chinese government announced measures to boost its real estate and stock markets in response to the continued slowdown in domestic demand and the real estate market. They have had significant, but temporary effects on the financial market, but China's economic trajectory will depend on the implementation of additional economic stimulus measures and on debt restructuring. Meanwhile, the Bank of

Japan's rate hike in early August reversed a considerable amount of yen carry positions, which temporarily elevated uncertainties in global financial markets. It is necessary to closely monitor any further impacts arising from Japan's monetary policy trends. Global oil prices continued to decline before rebounding recently due to the Iran-Israel military conflict. Uncertainties about oil prices are likely to increase depending on developments in that conflict. Nonetheless, based on the global supply and demand of crude oil, unless an extreme situation arises, the possibility of a prolonged surge in oil prices is likely to be limited.

As for the domestic economy, the member noted that although domestic demand is projected to show a modest recovery trend going forward, it has remained relatively sluggish compared to exports. In addition, the delinquency rates on corporate and household loans have continued to increase, due to the cumulative effects of weak domestic demand. This has increased the need for Base Rate cuts. The labor market showed a mixed picture with the unemployment rate hitting a record low, while the increase in the number of employed persons remaining at low levels. Risks on the inflation side are assessed as having eased considerably, as inflation has continued to slow, in line with the forecast path.

The member stated that in global financial markets, monetary policies in major advanced economies were changed to accommodative stances overall with some economies starting rate cuts while others making further rate cuts. U.S. government bond yields fluctuated owing to shifting expectations of further monetary easing, which depends on U.S. economic conditions. In domestic financial markets, Treasury bond yields fluctuated, mainly affected by U.S. interest rates, but lending rates rose as spreads reflected the tightening of lending regulations due to the increase in household debt. Korea's stock markets have underperformed relative to other advanced economies, which is likely driven by uncertainties surrounding the future performance of domestic companies. Meanwhile, it is judged that government regulations are having an effect as the rapid increase in home mortgage loans has slowed and as the momentum of housing price growth in the Seoul metropolitan area has weakened. However, it is still uncertain whether the overheating has fully subsided, and so it is necessary to monitor whether this trend will continue. With regard to real estate project financing, financial market instability risks have declined slightly as restructuring efforts by some large construction companies have started to show results, and there has been a modest decline in the number of unsold housing units.

The member commented that domestic foreign exchange markets showed relatively high volatility, with the won/dollar exchange rate fluctuating and mainly affected by the U.S. dollar index, and that it would be necessary to consider the possibility of a temporary, sudden fluctuation in the won/dollar exchange rate due to geopolitical risks and political uncertainties in major economies. However, foreign exchange markets have remained stable overall with foreign currency borrowing spreads and CDS premiums remaining at low levels.

In consideration of the abovementioned economic and financial conditions at home and abroad, the member judged that it would be appropriate to cut the Base Rate by 0.25%p at this meeting. With the cumulative effects of sluggish domestic demand, the need for rate cuts has increased, while the risk of such cuts fueling inflation has decreased. In addition, the surge in housing prices in the Seoul metropolitan area and the risk of an increase in household debt, both of which were the biggest factors limiting Base Rate cuts earlier, have subsided thanks to government regulations, and the government has additional policy capacity. Considering all these factors, it would be appropriate to lower the Base Rate at this point. However, since it is still in the early stages to be confident about the stability of housing prices and household debt trends, it is necessary to make every effort to implement macroprudential policies to prevent any potential side effects of rate cuts. Going forward, it would be desirable to determine whether to make further rate cuts after looking at the trends in domestic demand, inflation, housing prices, and household debt.

Another member expressed the view that it would be appropriate to lower the Base Rate from the current 3.50% to 3.25% at this meeting.

The member noted that the global economy, maintaining similar movements since the previous MPB meeting, was expected to sustain modest growth led by the services sector. Concerns about an economic recession have been raised in some major countries due to signs of an employment and consumption slowdown. Given the evident progress on disinflation and the trend of global monetary easing, however, it seems that the global economy is returning to its equilibrium level, with the strong likelihood of a soft landing. However, uncertainties and concerns are growing, due to the uncertain outcome of the U.S. presidential election, now less than a month away, and the possibility of escalating conflicts in the Middle East.

The member projected that the domestic economy would exhibit favorable growth this year, driven by strong export growth. Domestic demand, which has constrained economic growth to date, is now showing some signs of recovery, but it still falls short of expectations. Employment is favorable overall, while growth in the number of persons employed is slowing somewhat.

The member assessed that inflation has now fully reached its target level, with supply-side upward pressure on consumer price inflation significantly weakening, amid the underlying downward trend in core inflation.

The member stated that financial market conditions have been stable overall, and that the won-dollar exchange rate, which had been gradually decreasing, is expected to fluctuate around its current level for some time as it stabilizes. Treasury bond yields, which have so far reflected excessive expectations regarding the impact of both overseas and domestic monetary policies, have recently partially rebounded, but remain significantly below the Base Rate.

The member was of the view that housing prices and household debt, the main factors constraining monetary policy, have been growing at a slower pace, thanks to policy measures addressing both supply and demand. However, more time will be required to see tangible results, as upside and downside risks remain.

The member presented the view that, in overall consideration of these changes in the policy environment, pressure from price variables, such as inflation and exchange rates, has decreased and financial stability risks have been easing somewhat, while there has been a growing need to address the contraction in global demand due to weaker-than-expected domestic demand and uncertainties in major economies.

The member judged that, due to lower-than-expected national tax revenue, the capacity for fiscal expenditure to act as a policy response was limited, making it necessary for monetary policy to serve as a buffer instead. In this regard, it is judged that the benefits of adjusting the monetary tightening stance are now larger than its costs, and it would therefore be appropriate to cut the Base Rate from the current 3.50% to 3.25%.

The member saw that, unlike in previous periods of Base Rate cuts, trade-offs between a recovery in domestic demand and rising housing prices and household debt have increased. In light of this, it would be necessary to determine the direction of the Base Rate while closely examining any impacts of a rate cut on the macroeconomy and on financial stability, and monitoring monetary policy directions of major countries and the spread of geopolitical risks.