Minutes of the Monetary Policy Board Meeting

January 2025

Bank of Korea

English version

Minutes of the Monetary Policy Board Meeting[1)]

January 2025

Ⅰ. Outline

1. Date of meeting: Thursday, January 16, 2025

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:
   Kim, Eon Sung, Auditor
   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 January 16, 2025, Monetary Policy Board meeting, each member expressed their opinion on the Bank of Korea’s Base Rate decision.

The majority of members shared the view that, in overall consideration of the domestic and international financial and economic environment, it would be desirable to hold the Base Rate at its current 3.00% level at this meeting, while one member argued for cutting it from the current 3.00% level to 2.75%.

To begin, one member expressed the view that it would be appropriate to hold the Base Rate at 3.00% for the intermeeting period.

The member stated that, amid ongoing concerns about the economic policy direction of the new U.S. administration, the declaration of martial law, the Federal Reseve’s signals of more gradual rate cuts, and a recent plane crash in Korea, consumer and investment sentiment had significantly dampened, the recovery in domestic demand had slowed, and there had been increased downside risks to economic growth. Growth in exports had rebounded somewhat in December, but it remains to be seen whether this trend will continue.

The member pointed out that financial market indicators other than the exchange rate, such as government bond yields, credit spreads, and CDS premiums, had all remained relatively stable, despite the political upheaval. Housing price growth in the Seoul metropolitan area and household debt growth have both slowed due to the government's macroprudential policy measures, but financial risks in vulnerable sectors, including delinquency rates, have been accumulating. Due to the high exchange rate, consumer price inflation increased slightly from the previous month to 1.90%, but core inflation remains stable.

The member took the view that, while a further rate cut should be considered, given the weak recovery in domestic demand and the sluggish real sector indicators, a further rate cut at this time, with a globally strong dollar and domestic political unrest, could amplify volatility in the foreign exchange market.

At this point, with various uncertainties both domestically and internationally, the member believed that it would be advisable to keep the Base

Rate on hold at the current level for now, assess the effects of the past two rate cuts, and wait to see the policy direction of the new U.S. administration, the Federal Reserve's rate decision, and the political and economic situation at home and abroad before making any further cuts.

Another Board also expressed the view that it would be appropriate to keep the Base Rate unchanged from the current 3.00% for the intermeeting period.

With regard to the global economy, the member stated that countries had been exhibiting diverging trends. While the U.S. has experienced favorable growth and a slower than expected decline in inflation, other economies continue to face sluggish growth. This trend is likely to persist, but significant uncertainty remains about the trajectory of economic policy implementation following the inauguration of the new U.S. administration and its potential effects.

The member observed that, in international financial markets, risk appetite had weakened, the U.S. dollar had strengthened significantly, and Treasury bond yields had risen sharply in advanced countries, particularly in the U.S., following signals from the U.S. Federal Reserve about adjusting the pace of its rate cuts. Looking ahead, international financial markets are likely to be heavily influenced by the Federal Reserve’s monetary policy actions and by the economic policies of the new U.S. administration.

The member viewed that domestic economic growth would fall short of the previous forecast due to weaker than expected private consumpiton stemming from worsening sentiment caused by heightened political uncertainty, as well as due to the deepening sluggishness in the construction sector. The future growth path remains highly uncertain owing to domestic political conditions and to the evolving trade environment.

The member observed that domestic inflation had remained stable. While consumer price inflation rose to the upper 1% range affected by the increase in global oil prices, core inflation remained stable. Consumer price inflation would not deviate far from the target level going forward, but uncertainty has somewhat expanded due to the elevated exchange rate and global oil price movements.

Regarding financial and foreign exchange markets, the member stated that volatility of major price variables had increased. Foreign currency funding conditions have remained stable, in general. However, the won-dollar exchange rate rose sharply, driven by the strengthening of the dollar and exacerbated by domestic political uncertainty. Long-term Treasury bond yields declined substantially due to the interest rate cut in November and concerns about a domestic economic slowdown. Stock prices fell and then rebounded on the perception of undervaluation.

The member noted that, in the financial sector, household loans had continued to decelerate. Housing prices in the Seoul metropolitan area shifted to a decline and growth in household loans has also decreased considerably, affected by the ongoing effects of the government's macroprudential policies and by the weakening of any home-buying sentiment. Going forward, a resumption of household lending operations by the banking sector will lead to an increase in househol loans, but given the housing market slowdown and the government's ongoing stance of household debt management, household loans are expected to continue their slowing trend for some time.

Meanwhile, the member judged that, given the persistent slump in construction and in real estate related industries in the non Seoul metropolitan areas, it would be necessary to continue monitoring the asset quality and fund flows at some of the larger financial institutions that have large exposure to the sectors.

In summary, the member observed that, while inflation was projected to remain stable, growth was expected to be lower than the previous forecast and uncertainty had increased significantly regarding both policies in major economies and domestic political developments. Growth in household debt is expected to decline gradually, but it will still be necessary to keep a close watch on any negative effects on financial stability caused by any sharp increase in the won-dollar exchange rate.

In consideration of all of the abovementioned conditions, the member judged that it was appropriate to leave the Base Rate unchanged at the current level of 3.00% at this meeting. The member argued that the pace of any rate cuts should be determined in a flexible manner after closely monitoring domestic political devleopments, changes in economic policies at home and abroad, and their impacts.

A third member of the Board expressed the opinion that maintaining the Base Rate at 3.00% at this meeting would be appropriate.

The member stated that domestic and global uncertainties had increased significantly since the last MPB meeting. Externally, uncertainties regarding President-elect Trump's economic policies, the U.S. Federal Reserve's monetary policy direction, and concerns about China's economic slowdown remained elevated. While the U.S. continued to exceed expectations with robust growth, the euro area faced a delayed recovery due to external uncertainties, sluggish domestic demand, and political instability. In China, concerns over a slowing real estate sector, sluggish domestic demand, and U.S.-China trade tensions were driving declining government bond yields, weakening stock prices, and were causing a depreciation in the yuan.

Domestically, the member noted, economic sentiment had dropped sharply due to heightened uncertainties following a series of political events. In the foreign exchange market, while overseas borrowing rates remained low, the KRW/USD exchange rate had risen sharply to the mid- to upper 1,400 won range, driven by increased uncertainties and a significant widening of the interest rate differential between Korea and the U.S.

The member further noted that, based on the past two impeachment processes in Korea, political uncertainties had typically been resolved within three to six months, limiting their economic impact. However, the current situation was likely to have a greater economic impact due to the sharper decline in economic sentiment and the more challenging domestic and global conditions, including the rapid exchange rate increase.

The member noted that consumption had not contracted significantly in December, as year-end spending and seasonal sales had supported credit card usage. However, entering January, some indicators have begun to show signs of slowing, warranting close monitoring. Construction investment was expected to remain weak in the near term, given the continued decline in housing starts and the slowdown in housing market leading indicators. Exports were projected to remain strong, but to grow at a slower pace than in the previous year, while facilities investment was expected to align broadly with earlier forecasts.

The member commented that consumer price inflation had risen from the low 1% range to nearly 2%, largely driven by the exchange rate increase.

Underlying inflation indicators, including core inflation, were near the target level. Looking ahead, inflation was likely to remain close to the target, but that attention must be paid to the heightened upside risks stemming from exchange rate movements.

Regarding financial conditions, the member noted that long-term market interest rates and lending rates had declined. However, the effects of recent Base Rate cuts had been constrained by the exchange rate increase, by slower growth in household lending, and by reduced corporate financing.

The member believed that growth in household lending was expected to remain within the nominal growth rate, supported by the government's macroprudential policies. However, care should be taken to ensure that this process does not restrict borrower's access to liquidity for consumption. In the corporate sector, declining economic sentiment was expected to weigh on domestic-oriented industries. Specifically, banks were likely to tighten lending standards to manage capital adequacy ratios and loan soundness, potentially creating challenges in corporate financing.

In summary, the member noted that the recent escalation of domestic and external uncertainties had amplified downside risks to growth and had heightened risks in the foreign exchange market. Rapid Base Rate cuts could further pressure the exchange rate, increase inflationary risks, and unintentionally tighten domestic financial conditions, thereby hindering growth. For these reasons, maintaining the Base Rate at 3.00% for the intermeeting period was deemed appropriate.

Looking ahead, the member judged that monetary policy must be managed with flexibility and agility. This requires assessing the impact of political and economic uncertainties on consumption, inflation, and financial stability, while utilizing a range of monitoring tools, including official statistics, leading indicators, and granular data, to guide decision-making.

The member also emphasized that, while the possibility of cutting the Base Rate over the next three months needed to remain open, future monetary policy decisions should be based on weighing the economic effects of domestic and global uncertainties, evaluating the impact of prior rate cuts, and balancing the potential benefits and drawbacks of any further adjustments.

Finally, the member argued that, given the growing disparities among economic agents, utilizing complementary monetary policy measures, such as targeted liquidity support for vulnerable groups, would also be advisable.

A fourth member of the Board member also expressed the opinion that it would be appropriate to hold the Base Rate unchanged at 3.00% at this meeting.

This member noted that the current domestic and international economic conditions were increasingly uncertain. While the U.S. economy continues to grow above its potential growth, the rest of the world is facing heightened downside risks, and this trend is expected to intensify in the second half of the year, as the U.S. economic policy direction becomes clear.

The member stated that global uncertainties, though varying by country, represented common risk factors worldwide. In addition to these unfavorable external conditions, the domestic economy is facing heightened volatility in price variables, such as the exchange rate, as well as concerns about external creditworthiness and capital outflows, due to some idiosyncratic domestic factors, such as domestic political conflicts. Furthermore, the adverse impacts on the real economy are becoming increasingly evident, particularly in terms of consumption, with economic sentiment significantly worsening.

The member saw that the expected scope of future rate cuts by the U.S. Federal Reserve, which have a significant impact on decisions regarding the Base Rate, had narrowed. Furthermore, the forecasts regarding the future U.S. policy rate path vary widely among major domestic and international institutions. Most notably, the prevailing caution in the foreign exchange market indicates that it is currently very difficult to hastily determine the Base Rate direction.

Considering the overall circumstances, the member believed that adjusting the Base Rate at this time -- when all economic variables point to uncertainty and when non-economic factors, such as rapid changes in the foreign policy environment and domestic political conflicts, are dominant -- would be unlikely to achieve the desired policy effects. Therefore, at this meeting, it would be preferable to maintain the Base Rate at the current level of 3.00%.

The member pointed out that the need to see the development of policy changes in the U.S. and in other major countries, and concerns about the increased volatility of price variables, such as the exchange rate and inflation, are the main factors behind the decision to keep the Base Rate unchanged at this meeting. However, considering visible signs of economic contraction, it would be necessary to take a selective policy response that targets vulnerable sectors and groups while remaining more neutral in terms of the impact on price variables.

Finally, the member added that, in order to prepare for unforeseen future uncertainties, it would be essential to reassess the available policy mix of tools from various perspectives and to preemptively prepare for flexible and timely responses.

A fifth member of the Board expressed the view that it would be appropriate to lower the Base Rate from the current level of 3.00% to 2.75% at this meeting.

This member noted that the global economy had shown a slow recovery outside of the U.S., which continues to experience exceptionally strong growth, leading to the ongoing strengthening of the dollar against other currencies. Concerning the U.S., its economy has maintained robust growth led by private consumption. Inflation halted its decline last October and rose for two months in a row, while short-term inflation expectations also rebounded, indicating that the disinflationary trend has paused. Accordingly, the U.S. Federal Reserve revised its outlooks for growth, inflation, and the dot plot all upward, leading to an adjustment in market expectations regarding the pace of rate cuts. Given that the labor market also proved more favorable than expected, Treasury bond yields rose significantly. The European economy is expected to show a slower than anticipated recovery owing to unstable political conditions and sluggish economic activity in major economies. As for China, persistent downward pressure on growth due to subdued domestic demand, a continued negative growth rate in the PPI, and consumer price inflation remaining near 0% have all sustained concerns about deflation there, leading to sharp declines in government bond yields. Regarding Japan, as market expectations for a rate hike by the Bank of Japan softened, depreciation in the yen has continued.

Concerning the domestic real economy, the member noted that the downside risk to growth had risen due to heightened uncertainty about the Trump administration's economic policy and due to unstable domestic political developments. The growth rate in the fourth quarter last year is highly likely to be lower than initially anticipated owing to sluggishness in private consumption and in the construction industry. The growth rate for this year is also highly likely to fall below the previous forecasts due to heigthened political instability, unless exports, particularly of semiconductors, exhibit an unexpectedly strong performance or unless expansionary fiscal policies are implemented. Meanwhile, both consumer price inflation and core inflation are expected to remain stable, consistent with the forecast path, offseting the inflationary pressure from the rapid depreciation of the won and the deflationary pressure from slowing domestic economic activity.

In domestic financial markets, the member mentioned that, following a recent downward revision in market expectations for Korea's economic growth, government bond yields fell, weakening the correlation with U.S. Treasury bond yields. However, despite the political turmoil, domestic financial markets have remained steady overall and foreign bond investment has maintained its robust levels. The growth in household debt decreased due to the effects of the government's regulations, and housing prices in the Seoul metropolitan area have remained stable, as well. Meanwhile, the delinquency rate of non-bank financial institutions is currently considered to be manageable, but its steady increase underscores the need to prepare for a prolonged upward trend. As for real estate project financing, the restructuring process appears to be proceeding relatively smoothly, but caution is needed to prevent potential unrest in financial markets during the process.

With regard to the domestic foreign exchange market, the member noted that the won-dollar exchange rate had risen to 1,487 won at one point, showing a higher growth rate compared to the DXY. This was influenced by the potential prolongation of domestic political turbulence, weakened expectations of policy rate cuts by the U.S. Federal Reserve, and by the rise in long-term government bond yields in major economies. However, the exchange rate later declined, narrowing the gap with the dollar index's rate of increase. Considering the favorable foreign currency funding conditions, with the spread on foreign currency borrowing and CDS premiums remaining low, as well as large net external financial assets and foregin reserves, the likelihood of a sharp rise in the exchange rate due to domestic factors is deemed limited, unless the political unrest expands significantly.

Given all the aforementioned economic and financial conditions at home and abroad, the member deemed it appropriate to cut the Base Rate by 25bp. As the downward pressure from sluggish domestic demand has somewhat increased amid stable inflation, and as the downside risks to economic growth have risen, it is necessary to ease the current tight interest rate level. Interest rate cuts could put upward pressure on the exchange rate. However, given that the impact of the domestic interest rate adjustments on the interest rate differential between Korea and the U.S. is generally seen to be smaller compared to that of external factors, the intensity of this effect is expected to be limited. It would be desirable to determine whether or not to make any further changes to the Base Rate only after monitoring trends in inflation and economic growth, and after monitoring domestic and overseas financial market developments.

Finally, a member of the Board also presented the view that it would be appropriate to keep the Base Rate unchanged from the current 3.00% for the intermeeting period.

Looking at the global economy, the member projected that economic divergence among major countries would persist amid heighened uncertainty. The U.S. is forecast to sustain its robust growth, driven by domestic demand, while other countries are generally expected to show a gradual economic slowdown, affected by the new U.S. administration's tariff policy. The future growth path for the global economy is expected to face somewhat greater downside risks, owing to the new U.S. administration's tariff policy, expectations of a slower pace of policy rate cuts by the U.S. Federal Reserve, and to political uncertainty surrounding major countries, such as France and Germany.

The member observed that the domestic economy had been facing growing downward pressure. Key factors behind the slowdown risks include the contraction in economic sentiment and a delay in consumption recovery due to growing political uncertainty, and the continued sluggishness in construction investment. Looking ahead, the growth rate of the domestic economy is highly likely to fall short of the November forecast, influenced by a slowdown in export growth and a delay in the recovery of domestic demand. However, future economic trends are surrounded by high uncertainty, such as how the domestic political situation will unfold, whether and when a supplementary budget will be formulated, and where the new U.S. administration's policies are headed.

The member noted that global inflation is likely to continue to decelerate, affected by low demand-side pressure. However, the speed of disinflation is anticipated to slow due to the upward trend in key energy prices, such as global oil and natural gas prices, the global strength of the U.S. dollar, and higher tariffs.

Regarding domestic inflation, the member stated that both consumer price inflation and core inflation had remained stable in December. Although the higher exchange rate will work as upward pressure, inflation is projected to remain stable at around 2% owing to low demand-side pressure. The future trajectory of inflation is likely to be influenced by trends in the exchange rate and by global oil prices, by the timing and extent of hikes in public utility fees, and by economic developments at home and abroad.

As for international financial markets, the member noted that, while major countries have maintained their stances concerning policy rate cuts, Treasury bond yields in the U.S. and in other advanced economies had risen and the U.S. dollar had continued to strengthen, led by the forecast of slower rate cuts by the U.S. Federal Reserve.

Looking at domestic financial markets, the member mentioned that short- and long-term interest rates had declined since the previous MPB meeting, affected by the Base Rate cut, and that lending rates had fallen accordingly. Stock prices had dropped significantly, driven by domestic political uncertainty and expectations of slower rate cuts by the U.S. Federal Reserve, but they have been rebounding since the start of this year. Housing prices have continued to fall, due to the ongoing effects of the government’s tightened macroprudential policies and due to the heightened political uncertainty, further weakening home-buying sentiment. Growth in household debt, particularly housing-related loans, has also continued to slow.

In the foreign exchange market, the member noted that the won-dollar exchange rate had risen substantially, affected by the strengthening of the U.S. dollar due to weakening expectations of further rate cuts by the U.S. Federal Reserve, as well as by domestic political uncertainty. Looking ahead, exchange rate volatility is likely to increase, depending on the domestic political situation and on the global U.S. dollar trend, in line with the economic and monetary policy direction under the new U.S. administration.

In summary, the member stated that, in terms of the real economy, while inflation remains stable, downside risks to economic growth have increased due to both domestic and external factors, strengthening the need for a Base Rate cut. However, assessing the effects of the policy is challenging due to difficulties in evaluating the impact of domestic political developments on the real economy, as well as significant uncertainty regarding the timing and possibility of a supplementary budget, the economic policies of the new U.S. administration, and the Federal Reserve’s monetary policy direction. On the financial stability front, although the housing market and household debt remain stable, a surge in exchange rate volatility has been increasing inflationary pressure and adding to the burden of managing financial soundness for corporations and financial institutions. Given the potential widening of interest rate differential amid high uncertainty both domestically and globally, it is also necessary to consider the possible amplified upward pressure on the exchange rate.

Accordingly, the member argued it was deemed appropriate to keep the Base Rate unchanged at 3.00% in this meeting, considering the high uncertainty surrounding both domestic and external economic conditions and outlooks, as well as the heightened financial stability risks stemming from increased exchange rate volatility. Going forward, the timing and pace of any further rate cuts should be determined after carefully assessing the evolution and impact of these uncertainties, along with the effects of the two previous rate cuts implemented in October and November of last year.

Finally, the member believed, given the challenging domestic and external conditions, restoring economic momentum will require a greater focus than ever on stabilizing economic sentiment and maintaining Korea’s international credibility. This can be achieved through the resolution of domestic political uncertainty, the consistent implementation of economic policies, and an appropriate coordination between monetary policy and government economic policy.