Minutes of the Monetary Policy Board Meeting

May 2025

Bank of Korea

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Ⅰ. Outline

1. Date of Meeting: Thursday, May 29, 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
   Joo, Jae Hyun, 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

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

Ⅱ. Discussions Concerning the Monetary Policy Decision

At the Monetary Policy Board (MPB) meeting on May 29, 2025, each member expressed their opinion concerning the Bank of Korea's recent Base Rate decision.

All members expressed the view that, in overall consideration of the domestic and international financial and economic environment, it would be desirable to lower the Base Rate from 2.75% to 2.50% until the next Monetary Policy Board meeting.

To begin, one member viewed it as appropriate to lower the Base Rate from 2.75% to 2.50% at this meeting.

The member noted that, although global trade tensions had eased to some extent, the trade environment was expected to deteriorate more than previously anticipated, with uncertainties in the negotiation process persisting. As a result, global growth was projected to slow. In the United States, growth was expected to weaken as the effects of tariff increases materialize. In the euro area and China, ongoing trade friction with the United States was likely to constrain the effectiveness of any stimulus measures.

The member expected that inflation in major economies was expected to continue moderating, as demand side pressures weaken. In the United States, however, where tariff increases are expected to have a more direct impact, upward pressure on inflation was projected to intensify. As a result, there was a growing possibility that the pace of interest rate cuts by the Federal Reserve would be slower than previously anticipated.

As for international financial markets, the member observed that risk aversion had weakened as reflected in a notable rise in stock prices across major economies. However, as concerns over the fiscal soundness of the U.S. emerged, U.S. long-term Treasury yields rose and the U.S. dollar, which had shown a temporary strengthening trend, subsequently weakened.

With regard to the domestic economy, the member commented that weak domestic demand and slowing exports had resulted in negative GDP growth in the first quarter of the year. While domestic demand is expected to recover gradually as economic sentiment improves, the pace of recovery is likely to remain modest. Exports are also projected to decline more sharply due to the deterioration in trade conditions. As a result, this year's growth rate is forecast to fall well below previous projections. The outlook remains subject to considerable uncertainty, stemming from developments in trade negotiations involving Korea and other major economies, changes in global financial conditions, and the effects of fiscal stimulus measures.

With regard to domestic inflation, the member noted that consumer price inflation and core inflation had remained stable at around 2%, despite a somewhat broader increase in the prices of processed foods and some services. This was attributed to declining international oil prices and subdued demand side pressure. This stable inflation trend is expected to continue in the period ahead.

Turning to financial and foreign exchange markets, the member observed that stock prices had risen, supported by developments in major economy trade negotiations and by movements in global financial markets. Government bond yields, after a period of decline, began to rise again. The won-dollar exchange rate declined considerably with elevated volatility, driven by progress in U.S.-China trade talks and by expectations of a stronger East Asian currency bloc.

The member noted that household lending in the financial sector had expanded significantly, driven by increased housing transactions in February and March. Since the re-designation of expanded land transaction permit zones, housing transactions have declined. With the third phase of the stressed debt service ratio (DSR) regulations scheduled for implementation, household loan growth is expected to moderate gradually. However, as housing prices in Seoul continue to rise, expectations of further price increases in preferred areas remain high, and latent demand remains substantial. Against this backdrop, the member emphasized the need to remain vigilant about the potential impact of continued financial easing on household debt.

In summary, the member expected domestic economic growth to slow significantly, as the recovery in domestic demand remains sluggish and as exports weaken amid a worsening trade environment, while inflation continues to follow a stable trend. From a financial stability perspective, domestic and global financial conditions have somewhat eased following partial progress on trade negotiations. However, volatility in major price variables, including the exchange rate, remains elevated. Although the recent increase in household debt is considered temporary, its scale has been significant, warranting continued close monitoring of future developments.

Taking all these factors into account, the member judged that it would be appropriate to lower the Base Rate by 25bp from 2.75% to 2.50% at this meeting. Going forward, the Monetary Policy Board should maintain an easing monetary policy stance to respond to the weak economic conditions, while determining the timing and pace of any further rate adjustments based on a comprehensive assessment of domestic and external uncertainties, their implications for growth and inflation, and risks to financial stability.

Second, another member expressed the view that it would be appropriate to cut the Base Rate from the current 2.75% to 2.50% at this meeting.

The member noted that, since the last MPB meeting, while global trade tensions had eased to some extent, U.S. tariffs on goods from major trading partners had risen compared to earlier this year and considerable uncertainty remained over the course of future negotiations. As a result, global economic growth is expected to weaken and caution has increased among participants in international financial markets. Additionally, signs have emerged of a slight weakening in confidence in the U.S. dollar as a safe-haven asset, amid a sharp rise in U.S. Treasury yields following the downgrade of the U.S. sovereign credit rating and the persistence of fiscal deficits. These developments warrant close monitoring going forward.

The member stated that the won-dollar exchange rate declined to the upper 1,300 won range for the first time this year supported by a partial easing of trade tensions, reduced domestic political uncertainty, and the strengthening of other East Asian currencies. Nevertheless, exchange rate volatility remains elevated. Liquidity conditions in the foreign exchange market and foreign currency funding markets have generally remained stable. However, with interest rates in the U.S. remaining higher than those in Korea for an extended period and with residents continuing to engage in large-scale overseas securities investments, structural imbalances in foreign exchange supply and demand persist and warrant close monitoring.

Regarding the real economy, the member commented that the domestic slowdown had intensified, with construction investment remaining markedly weak, recoveries in private consumption and facilities investment being delayed, and private sector employment declining. Looking ahead, export growth is expected to slow as the effects of U.S. tariff increases begin to materialize. While the outlook remains subject to considerable uncertainty, downside risks, particularly those related to global tariff negotiations, are currently assessed to outweigh the upside risks.

The member observed that, despite subdued domestic demand and declining international oil prices, consumer price inflation remained at around 2%, driven by increases in food and some service prices. Key measures of underlying inflation, such as core inflation, have generally remained stable at levels close to the target.

Regarding financial conditions, the member mentioned that despite a rise in government bond yields, the overall easing trend continued, as reflected in higher stock prices, lower bank lending rates, and a sharp increase in both household loans and corporate funding. However, low-credit and financially vulnerable firms continued to face difficulties as banks continued to tightened their credit risk management. Household lending rose notably, driven by a surge in housing transactions in the Seoul area during February and March. While macroprudential policies, including the upcoming implementation of the third-stage stress DSR regulations, are expected to be strengthened, attention is warranted concerning the risk of any further acceleration in loan growth. This risk is driven by continued financial easing and by rising expectations of housing price increases in key areas.

In summary, the member pointed that economic activity remained sluggish, although inflation had stabilized and exchange rate risks had receded to some extent. As domestic and external uncertainties relatively eased, economic sentiment showed gradual signs of improvement. Fiscal measures, including a supplementary budget, are also scheduled, contributing to a partial alleviation of the factors that had previously constrained the effectiveness of monetary policy. In this context, the member viewed a reduction in the Base Rate from 2.75% to 2.50% at this meeting to be appropriate.

Looking ahead, the member argued the need to maintain an easing monetary policy stance in order to support the economy amid continued sluggishness.

However, given the persistent uncertainty surrounding external conditions and ongoing financial stability risks, such as those related to household debt, any further rate cuts should be considered with caution. Such decisions should be based on careful assessments of developments in tariff negotiations between the U.S. and major economies, the monetary policy stances of major central banks, and changes in household debt and exchange rate conditions.

From a longer-term perspective, the member emphasized that, while counter cyclical policy measures are important, restoring the economy’s underlying growth momentum requires structural reforms in order to strengthen its fundamental resilience. In addition, to address the high level of household debt, a concern shared globally, it is important that monetary and macroprudential policies continue to be implemented in a coordinated and consistent manner. At the same time, given the limited fiscal capacity of the private sector due to high household and corporate debt, slowing growth, and an aging population, fiscal resources should be allocated efficiently to areas less suited to private provision. These include the expansion of public safety infrastructure and improvements in structural efficiency, which are expected to support long-term growth.

A third member of the Board expressed the view that it would be appropriate to lower the Base Rate from the current 2.75% to 2.50% at this meeting.

Looking at external conditions, the member saw that trade negotiations between the U.S. and major economies had made some progress following the suspension of U.S. tariff measures. However, uncertainties surrounding the global trade environment remained considerable, keeping downward pressure on global growth and sustaining elevated volatility in international financial markets. The U.S. Federal Reserve is expected to maintain a cautious stance in its monetary policy decisions until greater clarity emerges regarding the content and impact of trade policy.

Looking at domestic conditions, the member stated that the economy contracted in the first quarter, reflecting weak domestic demand and sluggish exports, amid continued uncertainty at home and abroad. As for inflation, consumer price growth remained near 2% as upward pressure from higher prices for processed food and some services was offset by subdued demand and falling international oil prices. The won-dollar exchange rate remained volatile but declined to some extent on expectations of easing trade tensions. Foreign currency funding conditions were generally stable. Household debt growth accelerated in April and May, following the temporary lifting of land transaction permit zones. Although its pace is expected to moderate, the deceleration may be slower than initially expected given recent developments in the housing market.

As for the economic outlook, the member took the view that although uncertainty remained elevated, the growth rate was projected to decline to the upper 0% range, markedly lower than the February forecast, while inflation was expected to stay at around 2% this year. The downward revision in the growth outlook reflected a sharper than expected slowdown in exports following more aggressive tariff measures by the U.S. than previously anticipated. In addition, the prolonged uncertainty was seen to be delaying any recovery in private consumption or in construction investment.

The member noted that the government's expanded fiscal spending, including a supplementary budget, was expected to provide some support to subdued domestic demand. However, the weakness in private consumption was seen to stem not only from cyclical factors, but also from structural issues, such as demographic change, including population decline and aging, the accumulation of household debt, and income polarization. In this regard, the member emphasized the need to complement monetary and fiscal policy efforts with structural reform measures.

In summary, the member observed that inflation was expected to remain stable at around the target, and financial stability risks appeared to be easing somewhat, particularly in the foreign exchange market. However, with both domestic demand and exports remaining weak, economic growth was projected to slow markedly. In this context, the member viewed additional monetary policy action as necessary to limit the extent of the economic downturn.

In light of these circumstances, the member took the view that it would be appropriate to lower the Base Rate by 25bp from the current 2.75% to 2.50% in order to improve economic sentiment and growth trends.

The member pointed out that in a highly uncertain environment stabilizing economic sentiment and maintaining external credibility would be essential for monetary policy to deliver its intended effects. To this end, monetary policy should be conducted with caution and in close coordination with other economic policy measures. The member also emphasized the need to remain vigilant concerning the potential impact of external uncertainties, the ongoing easing stance, and the resulting widening of interest rate differentials on foreign exchange market volatility and on household debt risks.

The member emphasized that, going forward, the timing and scale of any further Base Rate adjustment should be determined only after careful consideration of several factors. These include the effects of the rate cuts implemented since October last year on key policy variables, namely inflation, growth, and financial stability, as well as the trade-offs among them. Attention should also be paid to the effectiveness of fiscal policy in supporting the economy, developments in the global trade environment, and changes in the monetary policy stances in major economies.

A fourth member of the Board expressed the opinion that lowering the Base Rate from the current 2.75% to 2.50% would be appropriate at this meeting.

The member forecast that, despite some progress on trade negotiations among major economies, global economic growth was likely to slow amid a worsening trade environment. Disruptions to global supply chains were also contributing to heightened uncertainty surrounding inflation trajectories across countries. In the case of the U.S., the stabilization of inflation appears to have been delayed due to elevated tariffs stemming from prolonged trade negotiations, raising the possibility that the timing of any policy rate cut could be pushed back despite signs of an economic slowdown.

Turning to the domestic economy, the member pointed out that private consumption and activity in the construction sector both remained sluggish. Although the earlier strength of the U.S. dollar has reversed, leading to a considerable decline in the won-dollar exchange rate, volatility in the foreign exchange market remains elevated. Meanwhile, exports, previously a key driver of domestic growth, have also weakened amid delayed trade negotiations and the rapid appreciation of the won could erode the price competitiveness of Korean exporters.

The member expressed the view that, as this year’s economic growth rate is expected to fall well below the February forecast due to both sluggish domestic demand and due to a worsening export environment, it would be appropriate to lower the Base Rate by 25bp at this meeting. However, since housing prices in certain regions continue to rise despite the anticipated economic slowdown, housing-related lending regulations and macroprudential policies should also be pursued in a consistent manner.

The member mentioned that the economic downturn had further exacerbated the challenges faced by vulnerable segments in both the household and corporate sectors. While a Base Rate cut is expected to support domestic demand, its effects may take time to be felt by these groups. As interest rate policy impacts the economy indiscriminately, additional targeted and micro-level support for vulnerable groups is warranted. At this juncture, a well-calibrated policy mix is needed, combining continued monetary easing with focused fiscal and financial measures aimed at supporting the vulnerable sectors.

A fifth member expressed the view that it would be appropriate to lower the Base Rate from the current 2.75% to 2.50% at this meeting.

The member stated that U.S. tariff policies had exerted complex effects across both financial and real sectors, and that these effects would likely continue to emerge gradually with a time lag, heightening the risk of a global economic slowdown more than ever. While some progress on tariff negotiations with some countries may help mitigate downward pressure, many of the agreed measures have merely been deferred, and baseline tariffs remain elevated. These persistent trade barriers are heightening trade tensions, disrupting global supply chains, and dampening investment.

Concerning the domestic economy, the member mentioned that a significant downward revision to this year’s growth forecast was inevitable, despite the adoption of a supplementary budget. This reflects the prolonged and deepening slump in domestic demand, especially in the construction sector, as well as the severe impact of deteriorating trade conditions on exports. In the labor market, continued weakness in construction, manufacturing, and youth employment signal a fragile economic environment and partly stem from structural challenges.

The member noted that price variables, such as stock prices, exchange rates, and Treasury bond yields, had exhibited heightened volatility, reflecting their heightened sensitivity to both domestic and global economic developments. This has made it increasingly difficult to predict their future trajectory. Although household debt is expected to rise significantly in the second quarter, it is likely to remain within manageable bounds, supported by macroprudential measures such as the third-stage stressed DSR regulations scheduled to take effect in July. Nevertheless, housing price trends should be monitored more closely amid the ongoing easing of financial conditions.

The member stated that, despite the heightened uncertainty, it was encouraging that corporate bond credit spreads remained stable, underpinned by solid investment demand, and that funding spreads in the FX swap market also stayed low.

The member projected that inflation would remain at around the target level as downside factors and falling global oil prices continue to exert downward pressure.

The member argued that, unlike the U.S. Federal Reserve's assessment of the U.S. economy, Korea was facing clear negative impacts from U.S. tariff policies concerning growth and employment, amid continued expectations of price stability. In this context, maintaining a wait-and-see stance should not be considered a policy option at this point. The decline in exports needs to be partially offset by domestic demand, and, to this end, monetary policy should work in tandem with the recently approved supplementary budget to maximize the effectiveness of the overall policy mix.

The member therefore expressed the view that it would be appropriate to lower the Base Rate from the current 2.75% to 2.50% at this meeting. However, any potential increase in household debt following the rate cut should be addressed proactively through targeted micro-level measures as circumstances evolve. Moreover, heightened attention should be paid to managing external risks, particularly the possibility of capital outflows stemming from a wider interest rate differential between Korea and the U.S.

Looking ahead, the member expressed the view that the extent of any further monetary easing should be determined in consideration of changes in external conditions, such as tariff policies, the economic policy direction of the new administration, policy rate adjustments by the U.S. and other major economies, and the resulting developments in real sector indicators and price variables.

Finally, a sixth member expressed the opinion that it would be appropriate to cut the Base Rate from the current 2.75% to 2.50% at this meeting.

The member stated that concerns about the negative impact of tariffs had eased to some extent as trade negotiations between the U.S. and other countries showed signs of progress. In the United States, stock prices recovered significantly following a sharp decline. However, uncertainty surrounding the outlook for inflation and economic growth has increased, leaving the Federal Reserve's policy stance unclear. At the same time, despite a rise in long-term U.S. Treasury yields triggered by a downgrade to the U.S. sovereign credit rating thanks to concerns over the fiscal deficit, the U.S. dollar depreciated. This was attributed to weakening confidence in the U.S. economy and a resulting increase in the risk premium

The member expected the euro area to maintain a modest pace of growth, supported by an easing monetary policy and planned fiscal expansion in some countries, despite downside risks from tariff-related uncertainty. In China, the economic outlook had improved to some extent following progress on trade negotiations with the United States. However, uncertainty remained as to whether domestic stimulus measures would be sufficient to offset the effects of still elevated tariffs. In Japan, long-term government bond yields, which had remained stable despite high levels of public debt, began to show signs of volatility. This was attributed to expectations for increased bond issuances amid the Bank of Japan's limited policy space.

The member noted that the domestic economy continued to exhibit sluggish growth. While recent progress on trade negotiations among major economies is expected to partially mitigate the negative effects of U.S. tariff policies, the economic outlook for the year has been significantly downgraded from the February projection. This revision reflects negative GDP growth in the first quarter, persistent weakness in the construction sector, and a slower than expected recovery in consumption. In the second half of the year, some easing of uncertainty surrounding U.S. trade policy and domestic political conditions is expected to support a recovery in private consumption and investment. However, activity in the construction sector is likely to remain subdued for some time. In the labor market, employment growth has been concentrated on older age groups and on the public sector, while youth employment has shown little improvement and job creation in the private sector remains limited. Meanwhile, inflation has generally followed the projected path, but downward pressure has increased in line with weakening growth momentum.

The member observed that domestic financial markets had remained generally stable. Long-term interest rates in Korea had declined and then stabilized, creating a divergence from U.S. long-term Treasury yields. This divergence was assessed to reflect differences in monetary policy, as inflation in Korea has remained more stable than in the United States. A similar divergence is also estimated to be occurring in term premiums. This is assessed to stem from relatively lower concerns over fiscal deficits and government debt in Korea, compared to other advanced economies, including the United States, where fiscal deficits are expected to continue worsening. The member emphasized, however, that fiscal policy should remain prudent, as bond markets have shown high sensitivity to fiscal developments as evidenced by the experiences of the U.S. and Japan. Meanwhile, household debt increased sharply in April and May in line with expectations. Going forward, the trajectory of household debt growth will likely depend on housing price trends in Seoul and in the surrounding metropolitan area. Given the continued rise in housing prices in and around Seoul, the member stressed the importance of ensuring that monetary policy does not further fuel upward pressure on the housing market.

Turning to the domestic foreign exchange market, the member noted that the won appreciated sharply and volatility increased significantly amid speculation that exchange rate issues might be raised during tariff negotiations with the United States. While the sensitivity of the current account to exchange rate movements has weakened compared to the past, a stronger won can place downward pressure on inflation. In addition, export contracts between exporters and subcontractors are primarily denominated in won. Threfore, the appreciation of the won is expected to have a positive effect on domestic demand. In the foreign currency funding market, non-residents selling in the non-deliverable forward (NDF) market has increased demand for foreign currency liquidity, leading to a sharp rise in arbitrage incentives. However, this is not considered a source of concern, given that credit default swap (CDS) premiums have remained relatively stable.

Considering current domestic and global economic and financial conditions, the member viewed it appropriate to lower the Base Rate by 25bp from 2.75% to 2.50% at this meeting. The pace of easing may appear somewhat slow, as concerns over exchange rate depreciation have subsided and as the growth outlook has been significantly revised downward. However, continued instability in housing prices in Seoul and the surrounding metropolitan area calls for a cautious approach. In this context, the member emphasized the importance of assessing the risks associated with further rate cuts and calibrating the pace accordingly. Going forward, further policy decisions should be based on close monitoring of inflation, economic growth, housing price developments, and conditions in domestic and global financial markets.