BANK OF KOREA

PRESS RELEASE

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Monetary Policy Decision

The Monetary Policy Board of the Bank of Korea decided today to leave the Base Rate unchanged at 3.50% for the intermeeting period.

This press release is the English version of the Bank of Korea's policy statement. In the case of any inconsistency, the original version in Korean will prevail.

(Attachment)

The Monetary Policy Board of the Bank of Korea decided today to leave the Base Rate unchanged at 3.50% for the intermeeting period. Although inflation has been elevated than previously expected, it is projected to continue its underlying trend of a slowdown. In addition, there are high uncertainties in household debt growth and external conditions. The Board, therefore, sees that it is appropriate to maintain its current restrictive policy stance.

The currently available information suggests that both concerns about a further tightening by the U.S. Federal Reserve and geopolitical risks have been alleviated. However, global economic growth is projected to continue slowing, driven by a prolongation of restrictive monetary policy stances in major countries. Inflation in major countries still remains high, while continuing its slowdown, and core inflation is declining at a slow pace. In global financial markets, government bond yields in major countries have fallen significantly and the U.S. dollar has weakened considerably. Looking ahead, the Board sees global economic growth and global financial markets as likely to be affected by the movements of global oil prices and the global inflation slowdown, by monetary policy operations in major countries and their effects, and by developments in the Israel-Hamas conflict.

Domestic economic growth has continued to improve at a modest pace owing to the easing of sluggishness in exports. Labor market conditions have been generally favorable, as the scale of the increase in the number of persons employed has expanded and as the unemployment rate has remained low. Going forward, domestic economic growth is expected to maintain its improving trends with an ongoing recovery in exports. GDP growth for this year is forecast to be consistent with the August forecast of 1.4%. The growth rate is expected to pick up to 2.1% in 2024, though slightly lower than the August forecast of 2.2%, affected by a prolongation of restrictive monetary policy stances at home and abroad and by a slow pace of consumption recovery. In the economic outlook, uncertainties regarding the effects from a prolongation of restrictive monetary policy stances at home and abroad and developments in geopolitical risks are judged to be high.

Consumer price inflation has risen to 3.8% in October due to the increase in the prices of agricultural products and energy. However, core inflation (excluding changes in food and energy prices from the CPI) has fallen to 3.2% in October. Short-term inflation expectations among the general public have risen slightly to 3.4%. Looking ahead, inflation is projected to maintain its underlying slowing trend owing to the weakening of demand-side pressures and to declines in the prices of global oil and agricultural products. However, it is forecast to run above the path projected in August, affected by cost pressures being higher than expected. Consumer price inflation will gradually moderate and will run at around 3% in the first half of 2024, and it is projected to be 3.6% in 2023 and 2.6% in 2024. (The August forecast was 3.5% and 2.4%, respectively.) Meanwhile, core inflation is forecast to maintain its modest slowdown, and is expected to be 3.5% in 2023 and 2.3% in 2024. (The August forecast was 3.4% and 2.1%, respectively.) The inflation path is likely to be affected by movements of global oil prices and exchange rates, and economic growth at home and abroad.

In financial and foreign exchange markets, risk aversion has subsided on heightened expectations of an end to policy rate hikes by the U.S. Federal Reserve, while geopolitical risks have eased. Korean Treasury bond yields and the Korean won to U.S. dollar exchange rate have fallen significantly and stock prices have risen. Household loans have continued to grow, mainly driven by housing-related loans, and the extent of the rise in housing prices has narrowed.

The Board will continue to conduct monetary policy in order to stabilize consumer price inflation at the target level over the medium-term horizon as it monitors economic growth, while paying attention to financial stability. While domestic economic growth is forecast to continue its improving trends, the inflation path is expected to be higher than previously forecast. The Board, therefore, will maintain a restrictive policy stance for a sufficiently long period of time until the Board is confident that inflation will converge on the target level. In this process, the Board will make a judgement regarding the need to raise the Base Rate further, while thoroughly assessing the inflation slowdown, financial stability risks, economic downside risks, household debt growth, monetary policy operations in major countries, and developments in geopolitical risks.