Opening Remarks to the Press Conference (November 30, 2023)

Today, the Monetary Policy Board (MPB) of the Bank of Korea decided to leave the Base Rate unchanged at 3.50%. I will first go over financial and economic conditions at home and abroad, and then explain the background to today's Base Rate decision.

To begin with the changes in external conditions since the October meeting, both concerns about a further tightening by the U.S. Federal Reserve and geopolitical risks have been alleviated. However, global economic growth is expected to continue to slow, affected by a prolongation of restrictive monetary policy stances in major countries. In the U.S., growth has been more favorable than expected, but is predicted to slow gradually affected by continued high interest rates. In the euro area, the economy is expected to remain sluggish with a weaker recovery in the services sector. In China, although the economic slowdown has somewhat eased thanks to economic stimulus, the growth rate is forecast to decline to the mid-4% range next year, affected by the slump in the real estate sector and by subdued external demand.

Inflation in major countries has moderated, but still remains high, with core inflation declining at a slow pace. In the U.S. and the euro area, consumer price inflation dropped to around 3% in October, but core inflation remains in the 4% range.

As for global financial markets, risk aversion has eased as expectations of an end to rate hikes by the U.S. Federal Reserve have heightened. Government bond yields have fallen significantly in major countries, the U.S. dollar has weakened considerably, and stock prices have risen.

Looking at domestic conditions, economic growth has continued to improve at a modest pace. While the consumption recovery has been somewhat slow affected by elevated inflation and interest rates, exports have continued to improve led mainly by semiconductors and automobiles.

Domestic consumer price inflation rose to 3.8% in October, driven by the increase in the prices of agricultural products and energy. Core inflation, however, was lower than in September at 3.2%. Short-term inflation expectations in October and November rose slightly from the September level (3.3%) to 3.4%.

In domestic financial and foreign exchange markets, where conditions were tight in September and October, risk aversion has subsided in November, with interest rates and the Korean won to U.S. dollar exchange rate falling substantially. While liquidity risks in non-bank financial sectors have eased, delinquency rates on loans are on the rise. Looking at household debt and the housing market, household loans continued to grow driven mainly by housing-related loans. Nonetheless, the household debt-to-nominal GDP ratio continued to decline moderately. Housing prices turned flat in mid-November.

In addition, the Board has revisited its assessment of future growth and inflation paths, reflecting changes in domestic and external conditions after the August economic outlook.

The domestic economy will continue its gradual improvement mainly led by an ongoing recovery in exports, and the GDP growth rate is forecast to rise from 1.4% this year to 2.1% next year. The growth rate for next year, however, is projected to be 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. The future growth path is surrounded by high uncertainties regarding the effects of the prolongation of restrictive monetary policy stances at home and abroad, and by developments in geopolitical risks.

Domestic inflation is forecast to maintain its underlying slowing trend owing to the weakening demand-side pressures and to declines in the prices of global oil and agricultural products. However, it is projected to run above the path projected in August, affected by the higher-than-expected cost pressures.

Consumer price inflation will gradually slow to the lower- to mid-3% range in November and December this year, and to around 3% in the first half of next year. The annual rate is forecast to decline from 3.6% this year to 2.6% next year. However, this forecast is 0.1%p-0.2%p higher than the August forecast. Core inflation will also continue to slow moderately, and the annual rates for this and next year are projected to stand at 3.5% and 2.3%, respectively, which are slightly higher than the August forecast. The future inflation path is likely to be affected by movements of global oil prices and exchange rates, and by economic growth at home and abroad.

Lastly, I will explain the background to the Base Rate decision, which reflects the abovementioned domestic and external conditions.

Although inflation rose more than previously expected, it is forecast to continue its underlying trend of a slowdown. It is also necessary to monitor household debt growth. Furthermore, there are still high uncertainties in external conditions regarding the effects of a prolonged period of high rates by the U.S. Federal Reserve, and regarding developments in geopolitical risks. Today, the Board therefore judged that it is appropriate to leave the Base Rate unchanged at its current restrictive level.

All the Board members unanimously supported the decision.

Looking ahead, the inflation path is projected to be higher than previously forecast while economic growth continues to improve. Therefore, the Board will maintain a restrictive policy stance for a sufficiently long period of time until we are confident that inflation will converge on the target level.

In this process, the Board will judge whether the Base Rate needs to be raised further while thoroughly assessing the slowdown of inflation, financial stability risks, economic downside risks, household debt growth, monetary policy operations in major countries, and developments in geopolitical risks.

In addition, the Board will make an effort to find how to support, with targeted measures, those sectors and regions that are relatively more vulnerable to the effects of a restrictive monetary policy over an extended period.