

Opening Remarks to the Press Conference (May 23, 2024)

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 economic conditions at home and abroad, and then explain the background to today's Base Rate decision.

To begin with changes in external conditions, the global economy is growing better than expected, but the pace of growth is moderate and economic conditions continue to differentiate across major countries. In the U.S., it is projected to maintain a favorable growth trend supported by continued increases in consumption and investment. Meanwhile, the euro area is expected to gradually ease its growth slump, but at a slower pace. In China, the economy is projected to grow in the upper 4% range, despite the ongoing slump in the real estate sector, thanks to the Chinese government's stimulus measures and an improvement in exports.

The pace of a slowdown in inflation has also varied among major advanced countries, and the timing of inflation converging on the target level will also likely vary substantially from country to country. In the U.S., consumer price inflation and core inflation declined in April, but remain high in the mid-3% range. Meanwhile, in the euro area both consumer price inflation and core inflation have declined to the 2% range.

In global financial markets, long-term government bond yields in major countries and the U.S. dollar index have escalated considerably and then eased, in-line with changes in expectations for the timing and size of policy rate cuts by the U.S.

Federal Reserve.

Looking at domestic conditions, the domestic economic growth rate exceeded expectations substantially in the first quarter this year. This is because net exports have significantly increased due to buoyancy in exports and reduced imports, and consumption and construction investment have improved more than expected owing to favorable weather conditions, an early execution of transfer payments, and the early launch of new-model smartphones. Starting from the second quarter, however, exports have continued to grow, but domestic demand has undergone a correction. While core inflation has fallen to 2.3% in April, consumer price inflation has stood at 2.9%, remaining high around the 3% range, and short-term inflation expectations have risen to 3.2% in May.

In domestic financial and foreign exchange markets, long-term Korean Treasury bond yields have fallen after having previously risen, in-line with changes in expectations of the monetary policy both at home and abroad. The Korean won to U.S. dollar exchange rate has fluctuated considerably at a high level, affected by trends in neighboring currencies, including the U.S. dollar and Japanese yen, and by geopolitical risks. Looking at household debt and the housing market, household loans in the financial sector increased as the growth rate of housing-related loans expanded and other loans, which had been decreasing, also rose. Housing prices in Seoul experienced an uptick, but in other regions prices continued to decrease. Although risks related to real estate project financing (PF) remain, such as rising delinquency rates, they are expected to be restructured in an orderly manner with the government's announcement of soft-landing measures.

In addition, the Board has revisited its assessment of future growth and inflation paths, reflecting changes in domestic and external conditions after the February Economic Outlook.

GDP growth for the year is projected to be 2.5%, considerably exceeding the February forecast of 2.1%. Compared with the February forecasts, both external factors, including the upward trend in the global IT market and the strong growth of the U.S. economy, and domestic factors, such as the easing of sluggish domestic demand, have contributed 0.3%p and 0.1%p, respectively, to the recent forecast. The future path of economic growth is likely to be affected by the pace of expansion in the IT industry, by the trend of recovery in consumption, and by monetary policies in major countries.

Consumer price inflation and core inflation for the year are projected to be at 2.6% and 2.2%, respectively, which is consistent with the February forecast. We judged that the upward pressure on inflation from an improvement in economic growth is not significant enough to adjust the annual forecast. This is because, while the future inflation trend is expected to slightly exceed the February forecast path due to the improved growth trend and high exchange rate levels, the upward revision in the growth rate is largely driven by an increase in net exports, which has a minimal impact on inflation, and a modest recovery in consumption and the government's price stabilization measures are expected to act as factors that limit upward pressure on inflation. The future path of inflation is subject to high uncertainties associated with movements of global oil prices and exchange rates, trends in agricultural product prices, and the ripple effects from improvements in domestic economic growth.

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

Although inflation has continued its slowing trend, upside risks to inflation have increased due to better-than-expected growth and heightened volatility of the exchange rate. Moreover, geopolitical risks also persist. The Board therefore judged that it is appropriate to leave the Base Rate unchanged at its current restrictive level and assess domestic and external policy conditions going forward.

All the Board members unanimously supported the decision.

Looking ahead, as the upside risks to the inflation outlook have increased since April, we need more time to gain confidence in the convergence of the inflation target and there is more uncertainty around the timing of a rate cut.

Therefore, the Board will maintain its current restrictive stance for a sufficient period of time until we are confident that inflation will converge on the target level. In this process, if the policy stance is shifted too early, there are risks that the pace of inflation moderation could be slower, and the exchange rate volatility and the increase in household debt could expand. On the other hand, if the policy stance is shifted too late, it could weaken the domestic demand recovery and increase the market instability risks due to a continuing rise in delinquency rates. We will comprehensively assess risks on both those aspects and make a decision on monetary policy after the second half of the year.