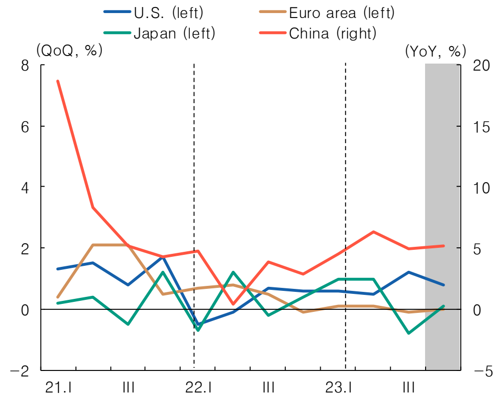
Executive Summary

[Recent Economic and Financial Developments]

⃞1 A look at economic and financial developments at home and abroad between December 2023 and February 2024 suggests the following. The global economy slowed moderately, affected mainly by restrictive monetary policy stances, but its growth was more favorable than expected thanks to the buoyant services sector. In the United States, continuously robust labor market conditions and consumption resulted in solid growth with a higher-than-expected rate of growth in the fourth quarter of 2023. Growth in the euro area was stagnant in the fourth quarter of 2023, as major countries, including Germany and France, recorded sluggish growth. However, the euro area appears to have hit the bottom, with recent signs of the manufacturing slump easing. China continued with its recovery supported by improved exports and production, despite sluggish consumption and investment owing to the faltering real estate sector. Japan recorded lackluster growth in the fourth quarter of 2023 due to continued weak consumption, despite its export growth, led by automobiles.

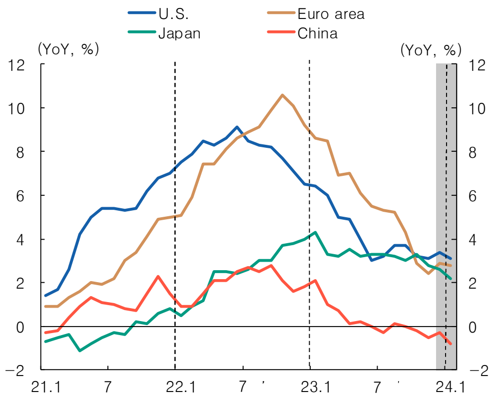
Economic growth in major economies



Sources: U.S. Bureau of Economic Analysis (BEA), Eurostat, Statistics Bureau of Japan, National Bureau of Statistics of China.

Inflation in major countries continued along its trend of a slowdown, while core inflation fell slowly as service prices kept going up amid favorable employment conditions.

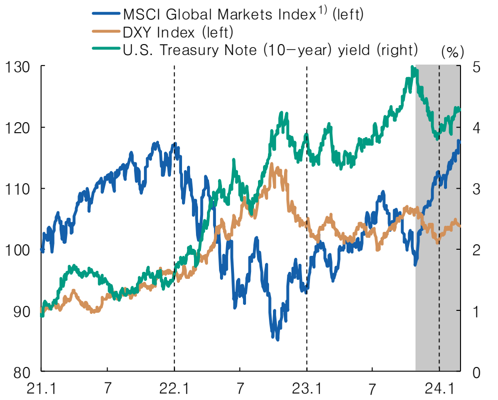
Consumer price inflation in major economies



Sources: U.S. Bureau of Labor Statistics (BLS), Eurostat, Statistics Bureau of Japan, National Bureau of Statistics of China.

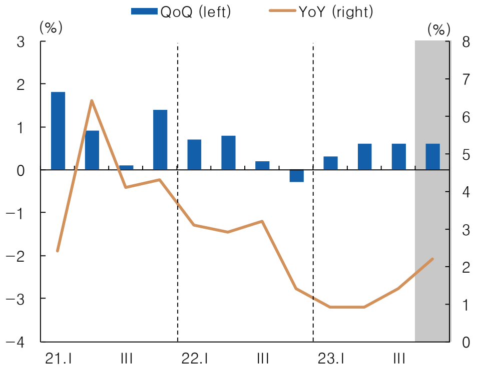
As for global financial markets, major price variables showed mixed movements before and after January, affected by the outcome of the U.S. Federal Reserve's

U.S. interest rate, global stock price index and dollar index



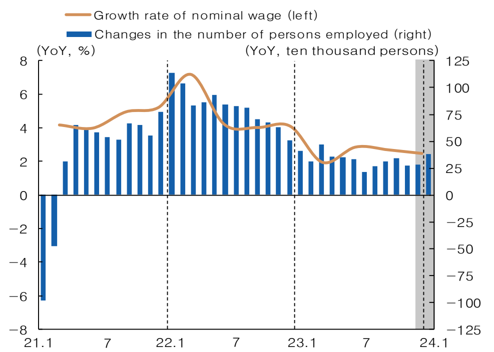
Note: 1) January 1, 2021 = 100.
Source: Bloomberg.

Real GDP growth[1)]



Note: 1) Reflects preliminary figures for 2022 and 2023.
Source: Bank of Korea.

Changes in number of persons employed and nominal wage growth[1)]



Note: 1) Nominal wage growth is based on quarterly data.
Sources: Statistics Korea, Ministry of Employment and Labor.

FOMC meeting, the release of U.S. economic indicators, and the subsequent shifts in expectations for the Fed’s monetary policy stance. Up until year-end 2023, expectations for policy rate cuts in major countries were heightened, resulting in a fall in Government bond yields, and a slight weakening of the U.S. dollar. As expectations of an early policy rate cut by the U.S. Federal Reserve weakened entering this year, however, Government bond yields rose and the U.S. dollar strengthened again. Stock prices rose considerably, driven by improvements in corporate performance and expectations of sustained growth in major countries, indicating a persistent appetite for risk.

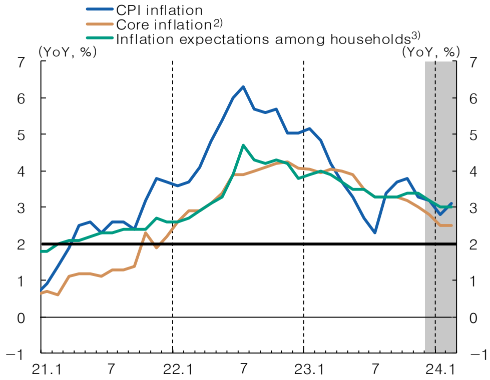
[2] The Korean economy continued to improve at a modest pace, particularly in exports. Real GDP growth in the fourth quarter of 2023 increased by 0.6% from the preceding quarter (+2.2% year-on-year). By sector, private consumption saw weakened recovery momentum due to a continuing slump in goods and a slowdown in services affected by elevated inflation and interest rates. Facilities investment showed signs of improvement boosted by a recovery in investment in IT manufacturing and in aviation. Exports continued to recover due to improvements in the global semiconductor industry and increased eco-friendly and infrastructure investments in major countries. Current account surplus also widened, mainly in the goods account. Export growth continued to improve from January onward, driven mainly by IT products.

In the labor market, the number of persons employed grew at a higher rate in the fourth quarter of 2023. In January, the number of persons employed in the manufacturing sector increased for two consecutive months due to improved exports, while the number of persons employed in the services industry also increased, led by health & social welfare and public administration services. Nominal wages increased by 2.5% year-on-year, continuing a slowdown in the upward trend.

3 Consumer price inflation resumed its downtrend in November 2023 to reach the upper 2% range in January 2024, and then rose to 3.1% in February. Core inflation continued its underlying trend of a slowdown due to weakened demand pressures, and fell to mid-2% this year. Meanwhile, short-term inflation expectations among households declined from 3.2% in December 2023 to 3.0% in January and February 2024 as consumer price inflation fell.

Housing prices declined since December 2023 driven by the reduction in government-sponsored finance for real estate and by the high interest payments burden. Sentiment indicators, including the housing price forecast Consumer Sentiment Index (CSI), also slowed since October last year, falling below the benchmark in December. Growth in nationwide leasehold deposit (jeonse) prices decelerated as the Seoul metropolitan area saw prices rise at a slower pace, and prices fell in the rest of the country. Meanwhile, the risk related to real estate project financing (PF) still remains.

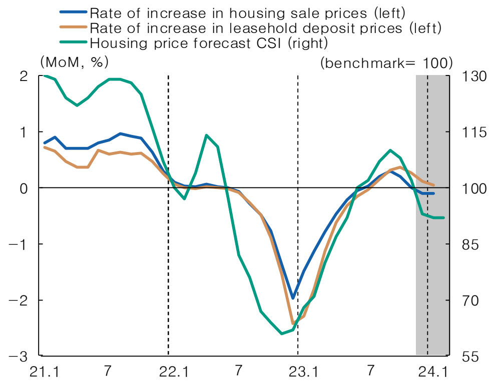
Inflation[1)]



Notes: 1) The bold line indicates the inflation target.
2) Excluding food and energy.
3) Expectations for the consumer price inflation rate over the next 12 months.

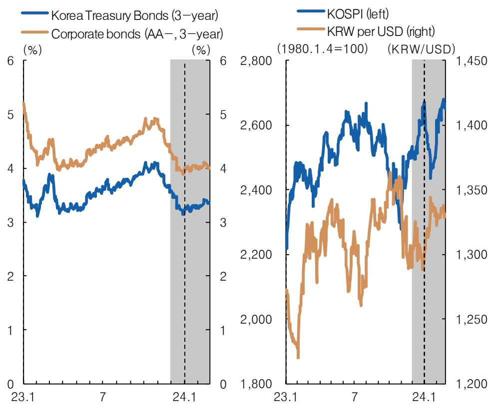
Sources: Bank of Korea, Statistics Korea.

Rate of increase in housing sale and leasehold deposit (*jeonse*) prices, and housing price forecast CSI



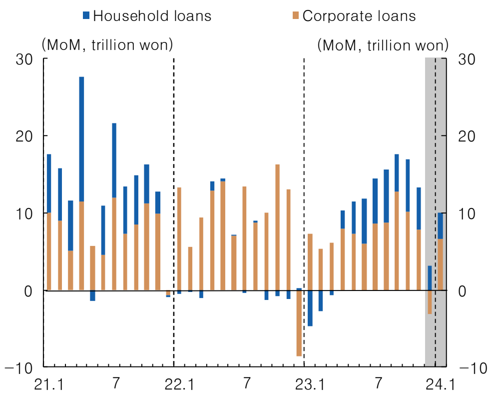
Sources: Bank of Korea, Korea Real Estate Board.

Domestic interest rates, stock prices and exchange rates



Sources: Bank of Korea, Korea Financial Investment Association, Koscom Corporation.

Changes in loans by deposit-taking banks[1)2)]



Notes: 1) Including mortgage transfers by Korea Housing Finance Corporation.
2) Figures for January 2024 are based on Bank of Korea advanced estimate.
Source: Bank of Korea.

4 In domestic financial and foreign exchange markets, Treasury bond yields and the Korean won/U.S. dollar exchange rate dropped and then rebounded, affected by changes in expectations of an early policy rate cut by the U.S. Federal Reserve. Since the December 2023 FOMC meeting, Treasury bond yields and the exchange rate declined on heightened expectations for the U.S. Federal Reserve's pivot. Entering this year, however, expectations for an early rate cut weakened due to FOMC results that were regarded as hawkish, and to higher-than-expected readings of U.S. economic indicators. Consequently, U.S. Treasury bond yields rose, resulting in an increase in Korea Treasury Bond yields, as well. The exchange rate climbed, affected by the globally strong U.S. dollar, but to a limited extent, as domestic foreign exchange supply and demand conditions improved in late January.

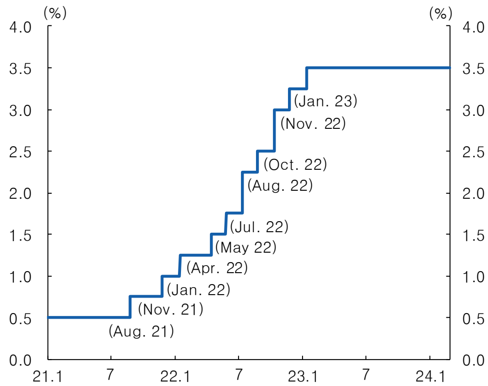
Meanwhile, growth in household lending decelerated in the fourth quarter of 2023 as banks saw slower growth in lending while the decline accelerated in the non-bank sector. Corporate lending grew more slowly in the fourth quarter due to year-end loan repayment by companies. In January, however, corporate lending increased considerably as the loans that had been temporarily repaid at year-end were retaken and as corporate demand for working capital increased.

Direct corporate financing decreased considerably in the fourth quarter of 2023 as a slight increase in stock issuance was offset by net redemptions of corporate bonds, commercial paper (CP), and short-term corporate bonds. In January, however, corporate bonds saw a considerable volume of net issuance, as corporations increased their issuance to refinance beforehand, in-line with the high beginning-of-year investment demand from institutions. CP and short-term corporate bonds also saw a large net issuance, as they were re-issued after the year-end temporary repayments.

[Monetary Policy Implementation]

5 The Bank of Korea maintained the restrictive policy stance with an emphasis on ensuring price stability in order to stabilize consumer price inflation at the target level (2%) over the medium-term horizon as it monitored economic growth, while paying attention to financial stability. Based on this stance, the Bank maintained the Base Rate at 3.50%, thoroughly assessing the inflation slowdown, risks to financial stability and economic growth, household debt growth, monetary policy operations in major countries, and developments in geopolitical risks.

Bank of Korea Base Rate[1)]



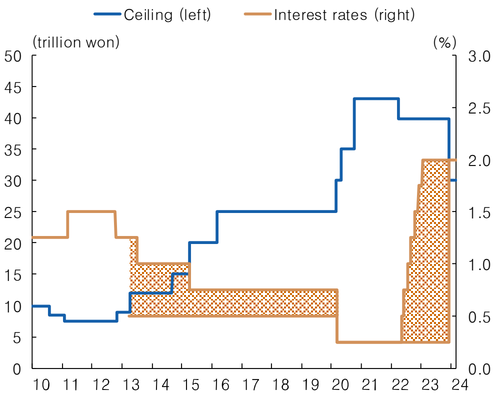
Note: 1) Figures in parentheses refer to the months of Base Rate adjustments
Source: Bank of Korea.

The Bank of Korea decided to leave the Base Rate unchanged at 3.50% in January because it was judged to be appropriate to maintain the current restrictive policy stance, given that inflation still remained high, although it had continued its underlying trend of a slowdown, and that uncertainties regarding the outlook were also high.

The Base Rate was also maintained at 3.50% in February. Although inflation had continued its slowing trend, it was judged that there were high uncertainties around the inflation outlook and it was necessary to assess the changes in domestic and external policy conditions such as monetary policies in major countries and volatility in the exchange rate, and geopolitical risks.

6 The Bank of Korea is using various policy instruments to promote smooth credit flows and stability in financial and foreign exchange markets. As for the Bank Intermediated Lending Support Facility (BILSF), on January 11, the Bank decided to implement a temporary measure to support regional small and medium-sized enterprises (SMEs), utilizing 9 trillion won worth of reserves in the ceiling of the BILSF. This decision reflects the Bank's judgement that a preemptive measure is required to support regional SMEs that are having financial difficulties, including financing, owing to increasing financing costs. As of March 2024, the total ceiling of the BILSF is set to be 30 trillion won, and the ceilings for each program of the BILSF are 1.5 trillion won for Trade Financing, 13 trillion won for New Growth Engine Development and Job Creation, 0.3 trillion won for Stabilization of SME Lending, 5.9 trillion won for Regional SMEs, and 9.3 trillion won in ceiling reserves.

Ceiling and interest rates of Bank Intermediated Lending Support Facility[1)]



Note: 1) Shaded area represents the time frame where interest rates were different for each program.
Source: Bank of Korea.

[Policy Considerations and Outlook]

7 Korean economic growth is expected to continue its improvement with an ongoing increase in exports, despite the slow recovery of consumption and the sluggishness in construction investment. Accordingly, Korea's real GDP growth for this year is expected to be 2.1%, which is consistent with the November 2023 forecast. It is projected to reach 2.3% in 2025 on account of easing financial conditions. The recovery of private consumption is projected to be slower than expected due to the impact of elevated

prices and interest rates. Facilities investment is likely to grow against a backdrop of a full-fledged recovery in the IT industry and continuing investments being made in green industries and new growth sectors. Construction investment, however, is expected to be slower than expected, as the impact of the contraction in commencement of new construction projects starts to take effect. Exports are likely to increase at a more robust pace as the global IT market recovers and as import demand from the U.S. is strong. Uncertainties remain elevated regarding the growth path due to factors such as the effects of monetary policy in major countries, the pace of improvement in the IT industry, and the impact of real estate project financing (PF) restructuring.

Economic growth outlook[1)]

(YoY, %)

	2022	2023[2)]			2024^{e}			2025^{e}
	Year	H1	H2	Year	H1	H2	Year	Year
GDP	2.6	0.9	1.8	1.4	2.2	2.0	2.1	2.3
Private consumption	4.1	3.1	0.6	1.8	1.1	2.0	1.6	2.3
Facilities Investment	-0.9	5.3	-3.9	0.5	2.6	5.7	4.2	3.7
Intellectual property products investment	5.0	2.9	0.3	1.6	1.5	2.8	2.2	3.3
Construction investment	-2.8	1.8	0.8	1.3	-2.4	-2.9	-2.6	-1.0
Goods export	3.6	-0.9	6.9	3.1	6.0	3.2	4.5	3.6
Goods imports	4.3	1.9	-3.0	-0.6	0.1	5.4	2.7	3.1

Note: 1) Figures are the forecast as of February 2024.
2) Reflects preliminary figures.
Source: Bank of Korea.

Consumer price inflation for this year will temporarily rise slightly owing to the persistence of high agricultural product prices, and then gradually fall again. Consumer price inflation for this year is projected to be 2.6%, which is consistent with the November 2023 forecast. Core inflation for this year is expected to be 2.2%, slightly lower than the November 2023 forecast (2.3%), continuing its slowing trend that reflects the slow pace of consumption recovery. The future path of inflation is likely to be affected by developments in geopolitical risks, by movements of global oil prices and domestic agricultural product prices, and by economic growth at home and abroad.

Inflation outlook[1)]

(YoY, %)

	2022	2023			2024^{e}			2025^{e}
	Year	H1	H2	Year	H1	H2	Year	Year
CPI inflation	5.1	3.9	3.3	3.6	2.9	2.3	2.6	2.1
CPI excluding food & energy	3.6	3.8	3.0	3.4	2.4	2.0	2.2	2.0

Note: 1) Figures are the forecast as of February 2024.
Source: Bank of Korea.

⑧ The Bank of Korea will continue to conduct monetary policy in order to stabilize consumer price inflation at the target level (2%) over the medium-term horizon as it monitors economic growth, while paying attention to financial stability.

While it is forecast that domestic economic growth will continue its improving trend and that inflation will maintain its slowing trend, it is premature to be confident that inflation will converge on the target level. Moreover, uncertainties surrounding domestic and external policy conditions are also judged to be high. The Bank of Korea, therefore, will maintain a restrictive policy stance for a sufficiently long period of time until it is confident that inflation will converge on the target level. In this process, the Bank of Korea will thoroughly assess the inflation slowdown, risks to financial stability and economic growth, household debt growth, monetary policy operations in major countries, and developments in geopolitical risks.