Opening Remarks to the Press Conference (August 22, 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 has continued its moderate growth trend, although uncertainties around its pace have somewhat increased in major economies, such as the U.S. and China. While the U.S. economy is in a favorable condition, uncertainties surrounding the pace of its economic slowdown increased with the recent mixed economic data. The euro area is expected to gradually recover its growth, but at a slow pace. Although the Chinese economy is projected to grow in the upper 4% range thanks to the Chinese government's stimulus measures, trade conflicts with major countries and a continuing recession in the real estate market remain as downside risks.

Global inflation has maintained its slowing trend. In July, consumer price inflation in the U.S. fell to the 2% range for the first time since March 2021, and core inflation fell to 3.2%. Both consumer price inflation and core inflation in the euro area are fluctuating between the middle and upper range of 2%.

In global financial markets, the risk-off sentiment strengthened substantially and then reversed, driven by concerns over a potential slowdown in the U.S. economy and by the unwinding of the yen carry trade. Meanwhile, volatility has increased, with stock prices experiencing significant fluctuation. The U.S. dollar index and long-term government bond yields have fallen as expectations of Federal Reserve rate cuts have strengthened.

Looking at domestic conditions, the domestic economy has continued with its divergence between domestic demand activities and exports. While exports have been showing a sharp increase, particularly in the IT sector, private consumption has been recovering at a slower pace than expected.

Inflation has maintained its underlying trend of a slowdown. Consumer price inflation has slightly risen to 2.6% in July due to accelerated price increases in petroleum products, but core inflation has remained steady at 2.2%, the same level as in the month before, which is a moderate increase. Short-term inflation expectations also have fallen to the upper 2% range.

In financial and foreign exchange markets, the volatility of prices increased significantly and then eased. However, concerns related to a potential U.S. economic slowdown and the unwinding of the yen carry trade remain. Stock prices fell sharply but have rebounded, and long-term Korean Treasury bond yields have fallen considerably due to growing expectations of policy rate cuts both at home and abroad and due to net purchases of bond futures by foreigners. The Korean won to U.S. dollar exchange rate has fallen due to the weakening of the U.S. dollar.

Looking at household debt and the housing market, housing prices in Seoul and its surrounding areas have increased at a faster pace as transaction volumes have risen, while the downward trend in the rest of the country has continued. Accordingly, household loans in the financial sector have sustained their growth at a high level, mainly driven by housing-related loans. Meanwhile, real estate project financing restructuring has been carried out in an orderly manner mainly by government and creditors, yet related risks, such as the increased delinquency rates, still persist.

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

The growth forecast for this year is 2.4%, slightly down from the May projection of 2.5%. This downward adjustment, 0.1%p, came from taking into account the following factors. We raised our growth forecast from 2.1% to 2.5% in May, reflecting the strong growth observed in the first quarter. However, given economic growth since the first quarter, we judged that transitory factors had a larger-than-anticipated impact on growth in the first quarter. As a result, we have made a slight downward adjustment this time and no significant changes are anticipated in the underlying growth trend going forward. The future path of economic growth is likely to be influenced by the pace of recovery in consumption, the expansion of the IT sector, and economic conditions in major countries.

Consumer price inflation is projected to record 2.5%, slightly below the May forecast of 2.6%, with the easing of supply side upward pressure. From August onward, consumer price inflation is expected to fluctuate in the low 2% range for some time due to the base effect from the sharp rises in global oil and agricultural product prices last year. It is likely to be affected later by movements of global oil and agricultural product prices and by adjustments in public utility fees. Core inflation for this year is expected to be consistent with the previous forecast of 2.2%.

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 and the domestic demand recovery has been modest, it is necessary to further assess the impact of the government's real estate measures and changes in global risk-off sentiment on financial stability, which includes housing prices in Seoul and its surrounding areas, household debt, and foreign exchange markets. 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.

I will explain in more detail the rationale behind our decision. While a rate cut that comes too late could weaken growth momentum by delaying the domestic demand recovery, we believe that under the current circumstances there is a greater risk that a rate cut would spur property price appreciation and increase volatility in foreign exchange markets. Also, we need to assess the impact of the government's measures to expand housing supply and strengthen macro-prudential regulations. Additionally, risk-off sentiment in global financial markets has not yet fully subsided. We need to monitor U.S. economic growth, the potential resumption of the yen carry trade unwinding, and the impact on the domestic foreign exchange market, through upcoming events such as the U.S. Federal Reserve's Jackson Hole meeting this week, the Bank of Japan Governor's parliament attendance, the newly released employment report, and the outcome of the September FOMC meeting. Therefore, we judged that it is appropriate to leave the Base Rate unchanged this time and examine inflation and growth trends along with financial stability risk factors, and then decide on future policy directions.

Regarding future monetary policy, the conditions in terms of inflation and economic developments are favorable for us to consider a rate cut at an appropriate time in the future. However, financial stability and global risk factors remain a concern. Therefore, while maintaining a restrictive monetary policy stance and coordinating macro-prudential policies with the government, the Board will examine the proper timing and size of rate cuts, based on a thorough assessment of the trade-offs among policy variables such as inflation, growth, and financial stability that may arise from rate cuts.