Opening Remarks to the Press Conference (October 11, 2024)

Today, the Monetary Policy Board (MPB) of the Bank of Korea decided to lower the Base Rate by 25 basis points, from 3.5% to 3.25%. 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 economic uncertainties surrounding major countries have increased. The U.S. economy is showing a favorable growth trend, but its growth rate is projected to decline somewhat next year as employment and consumption slow gradually. The euro area is expected to gradually recover its growth, but at a slow pace. Despite stimulus measures, China is expected to see its growth rate slow to the mid-4% range next year due to sluggish consumption and a continuing recession in the real estate sector.

Global inflation has maintained its slowing trend, with consumer price inflation in the U.S. falling to 2.4% in September. Accordingly, there has been continued easing of restrictive monetary policies, with the Federal Reserve beginning to pivot its policy stance and the ECB implementing further rate cuts.

In global financial markets, long-term government bond yields and the U.S. dollar index have rebounded after a decline, affected by changes in expectations of the pace of U.S. Federal Reserve rate cuts, by geopolitical risks in the Middle East, and by economic stimulus in China.

Looking at domestic conditions, exports have continued their improving trend, supported by a strong IT sector, but the recovery in domestic demand has been slow.

Going forward, the domestic economy is expected to continue its trend of moderate growth. However, it is judged that uncertainties surrounding the outlook have heightened compared to August due to the delayed recovery in domestic demand. The future path of economic growth is likely to be influenced by the pace of recovery in domestic demand, economic conditions in major countries, and trends in IT exports.

Inflation has shown a clear trend of stabilization. The consumer price inflation fell to 1.6% in September due to a significant drop in petroleum product prices, and the core inflation (excluding changes in food and energy prices from the CPI) has slowed to 2.0%. Short-term inflation expectations have also fallen to 2.8%.

Looking ahead, inflation is anticipated to remain stable with low demand pressure. Consumer price inflation is anticipated to be below the 2% level for some time, and it is projected to be slightly lower than the August forecast of 2.5% this year. Core inflation is expected to remain stable at around 2%, and it is projected to be consistent with the August forecast of 2.2% this year. For next year, both headline and core inflation are projected to be generally consistent with the previous forecast. However, there are high uncertainties related to the changes in global oil prices in response to developments of geopolitical risks in the Middle East, movements in exchange rates, and adjustments in public utility fees.

In domestic financial and foreign exchange markets, long-term Korean Treasury bond yields have rebounded after a decline, 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 in the low to mid-1,300 won range, influenced by movements in the U.S. dollar and geopolitical risks.

On the financial stability front, household debt growth has begun to slow due to the impact of tightened macroprudential policies by the government. Housing price growth and transaction volumes have declined in Seoul and its surrounding areas, and sluggishness in the housing market has persisted across the rest of the country. As a result, growth in household loans, which had expanded significantly in August, also shrank considerably in September. In October, it is expected to expand temporarily due to the seasonal effect, and from November onward it is expected to slow again, influenced by a declining number of housing transactions. However, it is still important to remain cautious of the associated risks, such as the impact of the Base Rate cut on household debt.

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

While inflation is showing a clear trend of stabilization, the effects of tightened macroprudential policies are gradually becoming apparent. Moreover, risks in the foreign exchange market have somewhat eased. The Board, therefore, judged that it is appropriate to lower the Base Rate by 25 basis points, from 3.5% to 3.25%, and examine the impact of this going forward.

One member—Chang Yongsung—voted against the decision to lower the Base Rate by 25 basis points, proposing to maintain the Base Rate at the current level of 3.5%.

I will explain in more detail the rationale behind our decision. As inflation has decreased, the degree of monetary tightness in terms of real interest rates has increased, and uncertainties regarding the growth outlook have risen. Therefore, we judged that the need for adjustment has grown. On the other hand, in terms of financial stability, the effects of household debt measures have begun to show, the government has stated that it would implement additional measures if necessary, and the U.S. Federal Reserve's pivot in policy stance has eased some pressure on the foreign exchange sector. The Board, therefore, judged that it is appropriate to lower the Base Rate by 25 basis points and assess its impact as well as domestic and external policy conditions going forward.

Regarding future monetary policy, as inflation is expected to stabilize at the target level, it is necessary to gradually adjust the Base Rate toward a neutral level. However, on the output side, uncertainties regarding the outlook have increased, while on the financial stability side, we still need to be mindful of rising household debt. The trade-off between domestic demand, exports, and financial stability presents a challenging policy environment, one that has not been encountered during previous policy pivots. Going forward, the Board will determine the pace of further rate cuts in a careful and balanced manner, based on a thorough assessment of the trade-offs among policy variables such as inflation, growth, and financial stability. In addition, the Board decided to lower the interest rate on programs under the Bank Intermediated Lending Support

Facility from 2.0% to 1.75%, in order to enhance support for vulnerable small and medium-sized enterprises (SMEs) experiencing difficulties.