



PRESS RELEASE

FOR IMMEDIATE RELEASE

October 12, 2022

Monetary Policy Decision

The Monetary Policy Board of the Bank of Korea decided today to raise the Base Rate by 50 basis points, from 2.50% to 3.00%.

(Attachment)

The Board has decided to raise the interest rate on Programs under the Bank Intermediated Lending Support Facility from 1.25% to 1.50%, effective October 12, 2022, while leaving the interest rate on the Support Programs for SMEs Affected by COVID-19 and Small Businesses at 0.25%.

(Attachment)

The Monetary Policy Board of the Bank of Korea decided today to raise the Base Rate by 50 basis points, from 2.50% to 3.00%. The Board judges that the policy response should be strengthened, as additional inflationary pressures and the risks to the foreign exchange sector have increased affected by the rising Korean won to US dollar exchange rate, while inflation has remained high.

Currently available information suggests that the global economic slowdown has continued, affected by the ongoing high inflation, further tightening of the US Federal Reserve's policy stance and the prolonged Ukraine crisis. In global financial markets, long-term market interest rates have risen significantly and stock prices have fallen, and financial unrest has emerged in some countries, while major currencies have depreciated due to the reinforced trend of US dollar strength. Looking ahead, the Board sees global economic growth and global financial markets as likely to be affected largely by the movements of international commodity prices and global inflation, monetary policy changes in major countries and US dollar trends, and geopolitical risks.

Domestic economic growth has slowed due to lower export growth, while private consumption has maintained its recovery trend. Labor market conditions have continued to improve, with the year-on-year increase in the number of persons employed remaining high. Going forward, domestic economic growth is expected to slow gradually, affected by the global economic slowdown and the increase in interest rates. GDP growth for this year will be generally consistent with the August forecast of 2.6%, but that for next year is projected to be below the August forecast of 2.1%.

Consumer price inflation has remained high in the mid- to upper-5% range due to the accelerating price increases in personal services and processed food products, although increases in the prices of petroleum products have moderated. Core inflation (excluding changes in food and energy prices from the CPI) and the inflation expectations of the general public have stayed high in the 4% range. Looking ahead, it is forecast that consumer price inflation will remain high in the 5-6% range for a considerable time as the impact of the rising Korean won to US dollar exchange rate acts as additional inflationary pressure. Consumer price inflation will be generally consistent with the August forecast of 5.2% in 2022 and 3.7% in 2023, but upside risks are judged to be high due to the rising Korean won to US dollar exchange rate and production cuts by major oil-producing countries, despite downward pressures from the economic slowdown.

Volatility in domestic financial markets has increased, especially in the foreign exchange sector, as the Korean won to US dollar exchange rate has risen significantly and foreigners' securities investment funds have shown net outflows, influenced by the strong US dollar and the weak yen and yuan. Long-term market interest rates have risen considerably and stock prices have fallen sharply. Household loans have decreased slightly and housing prices have further decreased.

The Board will continue to conduct monetary policy in order to stabilize consumer price inflation at the target level over a medium-term horizon as it monitors economic growth,

while paying attention to financial stability. The Board sees continued rate hikes as warranted, as inflation is expected to remain high, substantially above the target level, although domestic economic activity has slowed. In this process the Board will determine the size and pace of further increases of the Base Rate while thoroughly assessing the degree of persistence of high inflation, the pace of growth, monetary policy changes in major countries, financial stability conditions such as capital flows, and geopolitical risks.