

## Opening Remarks to the Press Conference (October 12, 2022)

The Monetary Policy Board (MPB) of the Bank of Korea decided today to raise the Base Rate by 50 basis points from 2.50% to 3.00%. I will now explain the detailed background to today's Base Rate decision, after briefly going over global and domestic financial and economic conditions.

First, looking at the changes in external conditions since the August MPB meeting, projections for the US Federal Reserve's policy rate destination have increased quite considerably from around 4% to the upper-4% level, adding to concerns about the global economic slowdown and intensifying global financial market volatility. Major advanced economies have been seeing slowing growth driven by high inflation of 8 to 10% and the resultant further tightening by their central banks. The Chinese economy also remains sluggish due to slumps in its property market and exports. In the global financial markets, long-term market interest rates have risen sharply and stock prices have plunged. Major currencies have depreciated as the US dollar strengthened further, resulting in financial strains in some countries.

Turning to domestic conditions, our growth has been slowing. Although consumption has maintained its recovery momentum, export growth has been on a gradual downturn, affected by the global economic slowdown. We expect this slowing trend to continue going forward. GDP growth for this year is likely to be generally in line with the August projection (2.6%), but for next year it is forecast to stand below that level (2.1%).

Consumer price inflation continues to be high at the mid- to upper-5% level. The rise in oil prices has slowed, but prices of personal services and processed food have climbed faster. Core inflation and the inflation expectations of the general

public remain elevated at the 4% level. Consumer price inflation is expected to run high in the 5-6% range for a considerable time, as the Korean won depreciation adds further upward pressures to prices. Although the consumer price inflation for this year and next will be generally in line with the August projections (5.2% and 3.7%, respectively), we see the upside risk from the weak Korean won and production cuts by major oil-producing countries as outweighing downside pressures from the slowing economy.

In the domestic financial markets, volatility has greatly increased, led by the foreign exchange sector. The Korean won to US dollar exchange rate has risen to well above 1,400 won, and securities investment funds of foreigners switched to a net outflow during September, reflecting strengthening of the US dollar and depreciation of the Japanese yen and the Chinese yuan, combined with the continued trade deficit. Long-term market interest rates have moved up significantly, affected by an increase in government bond yields in major countries, and stock prices have fallen.

Looking at household debt and the housing market, household loans decreased slightly, as the sustained net redemption of unsecured loans more than offset a rise in housing-related lending. Housing prices have further decreased.

The Board decided today to raise the Base Rate by 50 basis points in consideration of the need to strengthen its policy response. Although GDP growth for next year is projected to be below the August forecast, we judged that upside risk to consumer price inflation, which is expected to persist in the high range of 5-6% for a considerable time, has increased as a result of the depreciation of the Korean won. In addition, market expectations for Korean won depreciation have acted in part as a financial instability factor by increasing capital outflow pressure and causing herd behavior in the foreign exchange market.

Two members—Joo, Sangyong and Shin, Sung Hwan—voted against the decision to raise the Base Rate by 50 basis points, proposing to raise it by 25 basis points.

Looking ahead, the Board deems it warranted to maintain its stance of Base Rate hikes going forward, as inflation is projected to run above the target level for a considerable time. This stance is expected to help stabilize the foreign exchange market by alleviating concerns over the negative policy rate gap between the Bank of Korea and the US Federal Reserve.

Regarding the size of the policy rate hike in November, there are different views among the Board members and the uncertainties surrounding the policy decision are very high. The Board will determine the size of the next rate hike and the path of further increases after closely monitoring external conditions, such as results of the November FOMC meeting and movements in international commodity prices, and evaluating how these conditions may affect domestic inflation and growth as well as financial and foreign exchange markets.

I would like to make one last remark. The Board is well aware that the public is suffering a heavier burden as the Base Rate is hiked. However, increasing the Base Rate for price stability in the current high-inflation environment will be necessary for some time to prevent the economy as a whole from suffering from a greater loss. The Bank of Korea will do its best to stabilize the economy as quickly as possible.