Opening Remarks to the Press Conference (February 23, 2023)

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 financial and economic conditions at home and abroad, and then explain the background to today's Base Rate decision in detail.

First, looking at the changes in external conditions since the January MPB meeting, the global economy has seen growth and inflation slow, but the pace of the slowdown has moderated more than initially expected. In the U.S. and the euro area which had high concerns for a recession, expectations for a soft landing have heightened as favorable labor market conditions have continued and concerns over energy supply and demand have eased due to warm winter weather. In China, the recovery of economic activity has been more rapid than expected since the easing of COVID restriction policies. Inflation in major countries has declined gradually from the high levels, but the pace of decline has been slow, with U.S. consumer price inflation for January recording 6.4%, only a 0.1%p drop from the 6.5% in December.

As for global financial markets, volatility of major price variables has heightened as uncertainties over the U.S. Federal Reserve's terminal rate have increased. The U.S. dollar, which had weakened affected by the Federal Reserve's adjustment of the pace of rate hikes, shifted to a substantial and rapid strengthening in February as U.S. labor and inflation indicators exceeded market expectations. Long-term market interest rates in major countries, which had continued a declining trend, have risen considerably since February. As consumer price inflation in Japan has risen recently, uncertainties regarding the monetary policy by the Bank of Japan as well as the Federal Reserve have also increased.

The Korean economy has continued to slow. Although the global economy slowed by less than expected, exports continued to decline due to deepened sluggishness in the IT industry and recovery in private consumption weakened, affected by high inflation and the increase in interest rates.

Concerning inflation, consumer price inflation rose to 5.2% in January from 5.0% in the previous month. This is largely because electricity fees increased, and the prices of processed food products and other items maintained high upward trends, although increases in petroleum product prices have moderated. Core inflation recorded 4.1% in January and short-term inflation expectations stood at 4.0% in February.

Volatility has heightened in domestic financial and foreign exchange markets. Market interest rates have rebounded from an earlier significant decline affected by movements in Treasury bond yields in major countries. The Korean won to U.S. dollar exchange rate had dropped to the lower-1,200 won range, but has recently increased to around 1,300 won, in line with the shift to U.S. dollar strengthening.

Looking at household debt and the housing market, housing sales prices in both the Seoul metropolitan area and in other regions have continued to decrease. Household loans have declined significantly, led by increases in interest rates and the sluggishness in the housing market.

The Board has revisited its review of future inflation and growth trends, reflecting changes in internal and external conditions since the November MPB meeting. First, GDP growth for this year is projected to be 1.6%, which is slightly below the November forecast of 1.7%. This projection comprehensively reflects both the upward adjustment factors (+0.2%p), such as the possibility of a soft landing in the United States and in Europe, and the downward adjustment factors (-

0.3%p), including the sluggishness in the IT industry and domestic real estate market. The economy is expected to improve gradually going into the second half of this year. However, there are still high uncertainties related to monetary policies in major economies, the recovery in the Chinese economy, and the domestic real estate market.

Consumer price inflation is expected to be around 5% in February and drop significantly in March, owing chiefly to the base effect of a surge in global oil prices last year. It will continue its downward trend to hit the lower-3% range at the end of this year mainly affected by the weakening of demand-side pressure. As a result, annual inflation is projected to reach 3.5%, slightly below the November forecast of 3.6%. Compared to major economies, the level of inflation in Korea will likely be lower, while the pace of slowdown is expected to be more moderate, due to the effects of the increases in public utility fees. Concerning this inflation forecast, uncertainties remain high regarding movements of global oil prices and the exchange rate, the degree of economic slowdown at home and abroad, and the effects of the increases in public utility fees.

The Board decided today to leave the Base Rate unchanged at 3.50%. It is forecast that inflation will continue running above the target level throughout the year although it is projected to gradually decrease. Also, uncertainties surrounding policy decisions are high. The Board therefore judged that, while leaving the rate unchanged at the current level, it is appropriate to closely monitor developments of several uncertainty factors. They include ① the pace of inflation slowdown, ② the U.S. Federal Reserve's terminal rate, ③ the effects of China's economic recovery on the domestic economy, ④ the effects of a sluggish domestic real estate market on financial stability, and ⑤ the effects of accumulated Base Rate hikes.

One members―Cho Yoon-Je―voted against the decision to leave the Base Rate unchanged, proposing to raise it by 25 basis points.

Looking ahead, the Board will judge whether the Base Rate needs to rise further while maintaining its restrictive policy stance for a considerable time. This is attributable to the fact that inflation throughout the year is expected to run above the target level, even if the trend of inflation going forward is consistent with the current forecast. In this process, the Board will operate monetary policy in a sophisticated manner while thoroughly assessing developments of the abovementioned uncertainties and their effects.

Finally, I would like to emphasize once again that, against a backdrop of greater uncertainty than ever, the decision to leave the Base Rate unchanged at today's meeting was taken, after having raised it at every MPB meeting since last April.

Also, I don't want today's decision to be seen as the end of the rate hikes.

Although the Board raised the Base Rate at every meeting due to exceptionally high inflation last year, previously it was ordinary to pause after raising the rate to examine the need for further increases. Today's decision could be understood as returning to this usual way in the past.