

PRESS RELEASE*FOR IMMEDIATE RELEASE*

January 11, 2024

Monetary Policy Decision

The Monetary Policy Board of the Bank of Korea decided today to leave the Base Rate unchanged at 3.50% for the intermeeting period.

(Attachment)

The Monetary Policy Board of the Bank of Korea decided today to leave the Base Rate unchanged at 3.50% for the intermeeting period. Although inflation has continued its underlying trend of a slowdown, it still remains high and uncertainties regarding the outlook are also judged to be high. The Board, therefore, sees that it is appropriate to assess domestic and external policy conditions while maintaining its current restrictive policy stance.

The currently available information suggests that the trends of a slowdown in both global economic growth and in inflation have continued, driven by restrictive monetary policy stances being sustained in major countries. However, inflation in major countries still remains high, and it is expected to take a considerable period of time for that inflation to stabilize on the target level. In global financial markets, government bond yields have fallen and the U.S. dollar has slightly weakened, led by expectations of a pivot in the U.S. Federal Reserve's monetary policy stance. Looking ahead, the Board sees global economic growth and global financial markets as likely to be affected by global oil prices and inflation trends, by monetary policy operations in major countries and their effects, and by developments in geopolitical risks.

Domestic economic growth has continued to improve at a modest pace, mainly driven by exports. Labor market conditions have been generally favorable with a continued robust increase in the number of persons employed, while the unemployment rate has risen owing to temporary factors. Going forward, domestic economic growth is projected to maintain its improving trends with an ongoing increase in exports, although consumption and construction investment are expected to recover at a slow pace. GDP growth for the year is expected to be generally consistent with the November forecast of 2.1%. The future path of economic growth is likely to be affected by the effects of restrictive monetary policy stances being sustained at home and abroad, and by the degree of improvement in the IT industry.

Consumer price inflation has fallen to 3.2% in December due to the continued decline in prices of petroleum products. Core inflation (excluding changes in food and energy prices from the CPI) and short-term inflation expectations among the general public have moderated to 2.8% and 3.2%, respectively. Looking ahead, inflation is projected to maintain its slowing trend, but the pace of slowdown is expected to moderate due to the effects of accumulated cost pressures. Consumer price inflation is likely to fluctuate at around 3% for some time and then gradually moderate, and it is expected to be generally consistent with the November forecast of 2.6% for the year. Core inflation is also forecast to maintain its modest slowdown, which is consistent with the path projected in November. The future path of inflation is subject to high uncertainties associated with movements of global oil prices and agricultural product prices, and with economic growth at home and abroad.

In financial and foreign exchange markets, long-term Korean Treasury bond yields have fallen due to expectations of a pivot in monetary policy stances both at home and abroad. The Korean won to U.S. dollar exchange rate has fluctuated within a relatively narrow range. The extent of the increase in household loans has narrowed significantly due to a

reduction in other loans, despite continued growth in housing-related loans. Housing prices have shifted to a decline across all parts of the country, and risks related to real estate project financing (PF) have heightened.

The Board will continue to conduct monetary policy in order to stabilize consumer price inflation at the target level over the medium-term horizon as it monitors economic growth, while paying attention to financial stability. While domestic economic growth is forecast to continue its improving trends, inflation still remains high and uncertainties regarding the outlook are also judged to be high. The Board, therefore, will maintain a restrictive policy stance for a sufficiently long period of time until the Board is confident that inflation will converge on the target level. In this process, the Board will thoroughly assess the inflation slowdown, risks to financial stability and economic growth, household debt growth, monetary policy operations in major countries, and developments in geopolitical risks.