

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

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 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 is expected to continue to slow, as the restrictive monetary policy stances in major countries continue. In the U.S., growth is predicted to slow, but at a modest pace, given the easing of financial conditions since the December FOMC meeting and the favorable employment situation. In the euro area, the economy is expected to remain sluggish due to weaker external demand. In China, the growth rate is forecast to decline to the mid-4% range, affected by the continued slump in the real estate sector.

Inflation in major countries continues to slow, but it is forecast that it will take a considerable period of time for inflation to stabilize on the target level. In the U.S. and the euro area, consumer price inflation dropped significantly to around 3% at the end of 2023, from the peak of 2022 at 9%-10%. Going forward, however, the pace of slowdown is expected to moderate, and the timing of inflation converging on the 2% level is projected to be after the second half of next year.

As for global financial markets, due to growing expectations for the possibility of a rate cut by the U.S. Federal Reserve, government bond yields have fallen in major countries, the U.S. dollar has weakened, and stock prices have risen.

Looking at domestic conditions, economic growth has continued to improve at a modest pace, mainly led by exports. While the consumption recovery has weakened, affected by elevated inflation and interest rates, exports have continued to expand, driven mainly by automobiles and semiconductors.

Looking ahead, the domestic economy is expected to continue the improvement that has been ongoing since the second half of last year. The GDP growth rate for this year is projected to be generally consistent with the November forecast of 2.1%. This projection is the result of a slight upward revision to the export forecast due to an improvement in the semiconductor industry offsetting the slight downward revision to the consumption forecast due to weaker consumption in face-to-face services industries compared with the November forecast. The future growth path is likely to be affected by the effects of the sustained high interest rates, and by the degree of improvement in the IT industry.

Domestic inflation has maintained its slowing trend owing to declines in global oil prices and low demand-side pressures. Consumer price inflation, which had risen to 3.8% in October, declined to 3.2% in December. Core inflation (excluding food and energy) and short-term inflation expectations also slowed to 2.8% and 3.2%, respectively.

Going forward, domestic inflation will continue to slow, but the pace of slowdown is expected to moderate due mainly to the effects of accumulated cost pressures. Consumer price inflation is likely to fluctuate at around 3% for some time and then gradually decrease. The annual rate is expected to be consistent with the November forecast of 2.6%. Core inflation will also continue to slow at a modest pace, consistent with the initial forecast, and the rate for this year is

expected to stand at 2.3%. However, there is high uncertainty on the future inflation path associated with movements of global oil prices and agricultural product prices, and with economic growth at home and abroad.

In domestic financial and foreign exchange markets, after last December's FOMC meeting, long-term Korean Treasury bond yields and the Korean won to U.S. dollar exchange rate declined and stock prices rose. However, coming into this year, as expectations for the possibility of a rate cut by the U.S. Federal Reserve have somewhat weakened, the movements in December have turned back to some degree.

Looking at household debt and the housing market, household loans in the financial sector increased only slightly due to a significant decrease in other loans, despite a continued increase in housing-related loans. Housing prices have shifted to a decline both in Seoul and its surrounding areas, and in the rest of the country, due to the weakening of purchase sentiment. Risks associated with real estate project financing (PF) have increased.

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

Although inflation has continued its slowing trend, it still remains high. Also, there are high uncertainties regarding the outlook. The Board therefore judged that it is appropriate to leave the Base Rate unchanged at its current restrictive level and assess domestic and external policy conditions going forward.

All the Board members unanimously supported the decision.

Looking ahead, considering that inflation continues to slow and that external risks regarding oil prices and the Israel-Hamas conflict have eased, it is judged that the need to raise the Base Rate further has decreased compared to before.

However, prematurely lowering the Base Rate could stimulate inflation expectations and cause inflation to rise again. Furthermore, in the current situation, the side effects of stimulating expectations for a rise in real estate prices could outweigh the benefits of economic stimulation by cutting the rate. Therefore, the Board judged that achieving price stability, by maintaining a restrictive monetary policy stance for a sufficiently long period of time until we are confident that inflation will converge on the target level, is of the utmost importance.

In addition, the Board today decided to temporarily increase the amount of financial support to regional small and medium-sized enterprises (SMEs), utilizing 9 trillion won worth of reserves in the ceiling of the Bank Intermediated Lending Support Facility.

In a situation where it is still premature to discuss a rate cut, as it is expected that the negative impacts from high interest rates could disproportionately affect vulnerable sectors and regional SMEs, the Board judged that it is necessary to complement the high policy rate through targeted and temporary support for them.