

Opening Remarks to the Press Conference (January 13, 2023)

Today, the Monetary Policy Board (MPB) of the Bank of Korea decided to raise the Base Rate by 25 basis points, from 3.25% to 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 November MPB meeting, the global economy has continued to slow, affected by ongoing high inflation and the resultant policy rate hikes in major countries, although inflation is starting to slow due to falling global oil prices. Specifically, the U.S. economy has seen slowing growth, mainly in consumption. The euro area now faces a higher chance of negative growth, due to sustained slumps in consumption and investment. In China, domestic demand and exports continue to stagnate amid the virus surge, despite an earlier-than-expected easing of its COVID restriction policies. As for global financial markets, major price variables have generally shown reduced volatility, with the U.S. dollar remaining weak, reflecting the U.S. Federal Reserve's adjustment of its policy rate hike pace at the December FOMC meeting.

The Korean economy has continued to slow. Exports dropped sharply due to a slowdown in major trading partners' economies and in the IT business. Consumption has also shown weaker recovery momentum, as the boosted demand during the normalization of economic activities has gradually slowed along with interest rate hikes. With the domestic economy continuing its slowdown, the GDP growth for this year is expected to be below the November forecast of 1.7%. The economy is projected to improve gradually going into the second half of this year, driven by recoveries in the Chinese economy and in the

IT business. However, there are still high uncertainties related to the pace of recovery in the Chinese economy as a result of the easing of COVID restriction policies and to the degree of the economic slowdown in major economies.

Concerning inflation, consumer price inflation remained high, at 5.0% in December. The pace of the price increases of processed food accelerated, with the continuing effects of electricity and gas fee hikes while the rise in the prices of petroleum products slowed. Core inflation has declined slightly to 4.1% and short-term inflation expectations of the general public decreased to 3.8% in December, but they are still at a high level. Going forward, consumer price inflation is projected to be around 5% in January and February, as the accumulated cost pressure is reflected in public utility fees, including electricity and gas fees, and processed food prices, before gradually going down. The annual consumer price inflation for 2023 is expected to be generally in line with the November forecast of 3.6%. However, concerning the price forecasts, uncertainties remain high in terms of the degree of the economic slowdown at home and abroad, the size of the hikes in electricity and gas fees, and movements of global oil prices and the exchange rate.

In the domestic financial and foreign exchange markets, the market unrest seems to have eased thanks to market stabilization measures by the government and the Bank of Korea, and adjustments to the pace of the US Federal Reserve's policy rate hikes. Long-term market interest rates have fallen, corporate bond and CP spreads have declined significantly, and the Korean won to U.S. dollar exchange rate has dropped to the mid-1,200 won range. However, there is still a high level of credit-risk aversion against non-prime bonds and PF-ABCP in the financial markets due to concerns over the sluggish real estate market. Exchange rates also remain highly uncertain, in line with the U.S. Federal Reserve's monetary policy decisions and movements of the Chinese yuan and the Japanese yen.

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

The Board decided today to raise the Base Rate from 3.25% to 3.50%. The Board judged that today's 25 basis-point increase is warranted to achieve price stability, given that inflation, still remaining at a high level, is projected to run above the target level for a considerable time, although the GDP growth rate for this year is expected to be below the November forecast.

Two members—Joo Sangyong and Shin Sung Hwan—voted against the decision to raise the Base Rate by 25 basis points, proposing to maintain the Base Rate at the current level of 3.25%.

Looking ahead, the Board deems it warranted to maintain its restrictive policy stance with a focus on price stability going forward, as inflation this year is expected to run above the target level while gradually moderating after March. Meanwhile, the Board will judge whether the Base Rate needs to rise further while thoroughly assessing the economic downside risks and financial stability risks, the effects of the Base Rate raises, the pace of inflation slowdown, and monetary policy changes in major countries.